BENEFITS OF PROCESSED AND VALUE-ADDED PRODUCTS IN AGRICULTURAL EXPORTS

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BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

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BENEFITS OF PROCESSED AND VALUE-ADDED PRODUCTS IN AGRICULTURAL EXPORTS

TUESDAY, SEPTEMBER 21, 1982

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, at 9:30 a.m., in room 324, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Jepsen, and Dixon.

Also present: Senator Andrews.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. We have with us this morning the Honorable Allen Olson, Governor of North Dakota; and Bill Lesher, Assistant Secretary for Economics, each will testify individually. Then we have a couple of panels. I presume all the people in the room are interested in the issue and do not need an overview of the subject.[1]

Agriculture exports are down slightly this year and one way of getting them up again is to become involved in value-added exports which not only increases the dollar figures but also increases job availability in this country.

I have some of my friends here from my State of Minnesota today. They are from the Soybean Association and I welcome them. I regret I will not be able to be at the press conference with Senators Durenberger and Lugar regarding the sanctity of contracts in which my friend Senator Jepsen also takes a great interest. I believe that these hearings will be mentioned at the press conference. Furthermore we have expanded on Senator Lugar's bill and hopefully we are going to be able to do something this year. It would make the rump session in December a very valuable one because cutting across the contracts really undermines our entire trade system.

Senator Jepsen, I ask unanimous consent at this time to enter into the record a statement by the chairman.[2]

Senator Jepsen, do you have any statement you would like to make?

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[1] See p. 53 for the news release announcing the hearing; p. 53 for the prepared statement of Senator Boschwitz; and p. 53 for a report by the House Republican Research Committee.

[2] See p. 56 for the prepared statement of Senator Helms.

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator **Jepsen**. Mr. Chairman, I commend you for holding these hearings on U.S. exports on processed and value-added products. I will make my remarks brief.

Mr. Chairman, you are to be congratulated for the new thrust of realism that you have brought into this subcommittee and into the general marketing area for agricultural products. This is the type of hearing which I would like to see occurring more frequently, with all commodity groups coming together with one purpose in mind and that is to strengthen our agricultural economy for the betterment of our Nation's farmers. In agreeing to testify today, you publicly underscore the common bonds and interest and are saying that business as usual no longer should dictate our actions in the agricultural export area.

If American agriculture is to survive, and exports are the key to that survival, you must act in concert and you must be willing to use individual methods to promote sales of our commodities. By increasing exports of processed farm commodities we do not in any way undermine exportation of the basic raw materials. Rather it enhances and broadens the export markets by insuring that processed food products have a share in the future growth of agricultural exports.

The bottom line is a stronger agricultural economy.

By increasing U.S. exports of processed agricultural products we will not only move more grain out of them but will produce more jobs. This is just sound economic sense.

For every 10 percent of raw exports of corn, wheat, and soybeans moved abroad as processed or value-added products, according to the USDA the U.S. gross national product would jump by nearly $16 billion and principal income by more than $3 billion and some 300,000 new jobs would be created in the United States. These would be 300,000 new permanent jobs, not the 200,000 or 250,000 makeshift, temporary jobs called for under the $1 billion public works legislation recently passed by the House. If we are interested in creating more jobs, and we all are; if we are interested in reducing the unemployment rolls, and we all are, then we should get behind the efforts to encourage the increase in U.S. exports of agricultural products.

With regard to Senate Concurrent Resolution 122 introduced on September 17 by my colleague Senator Percy of Illinois, to quote Senator Percy:

> Here is a proposal that will create 300,000 new U.S. jobs. They will be continuing jobs. They will be jobs that will create income that will be taxable at the personal and corporate level.

These will be private sector, not public sector jobs, Mr. Chairman.

These will be jobs not requiring continued infusion of tax money. Finally, the food processing industry in my State of Iowa has added hundreds of millions of dollars to the State's economy, employing nearly 46,000 persons, and generates an annual payroll of nearly $800 million, and this is duplicated in other States.

For this reason, I am supportive the Senate Concurrent Resolution 122 as well as of the Export Processing Industry Coalition, a coalition of industry and labor designed to strengthen U.S. agriculture processing and export capabilities. I will support any legislation reported out of this committee that will help decide in which direction we should go. We are all in this together; and we must pull together or we are going to fall together.

Mr. Chairman, I thank you for allowing me to make some opening remarks, and before I conclude, I would like to recognize an Iowan who will be appearing on the Farm Commodity Organization's panel later this morning.

He is Varel Baily, vice president for legislative affairs, National Corn Growers Association, who is sitting to my immediate rear and he is backed against the wall.

Varel, would you raise your hand and identify yourself?

Varel resides in Anita, in Cass County, Iowa; he is a graduate of Iowa State University; he has been actively engaged in farming since 1966, and farms some 1,500 acres of corn and native grassland and a diversified livestock operation of cattle, swine, and sheep. He is married and he has three children. He is past president of the Cass County Farm Bureau, past president of the Iowa Corn Growers Association, past president of the Jaycees and past vice president of the research and education enactment of the Corn Growers Association. I welcome him to Washington and thank him for taking of his time and his efforts in such a worthy cause.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Our first witness is Gov. Allen Olson of North Dakota. Our friend, Mark Andrews, regrets that he is not here to introduce you and asked me to do so. We are neighbors and we have known one another over the years.

You reminded me that we first met 8 or 9 years ago, and it is a pleasure to have you here, and we will appreciate hearing your testimony.

STATEMENT OF HON. ALLEN OLSON, GOVERNORS, STATE OF NORTH DAKOTA, AND MEMBER, NATIONAL GOVERNORS' ASSOCIATION, COMMITTEE ON AGRICULTURE

Governor OLSON. Thank you, Mr. Chairman and Senator Jepsen.[1]

I am with you this morning on behalf of the National Governors' Association, but I have a perspective on this issue that is somewhat broader than that of the National Governors' Association. Naturally, I speak as Governor of the Nation's most agricultural State; second, I am a wheat producer and, third, North Dakota operates a flour mill. It is owned and operated by the State of North Dakota and the Governor is chairman. In my previous position as attorney general of the State of North Dakota, I also was a member of the board of the State mill for some 8 years. So I have a perspective that includes direct relationship to the production of a major agricultural product and its processing. I also, Mr. Chairman——

Senator Andrews, good morning.

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[1] See p. 59 for the prepared statement of Governor Olson.

Senator **Boschwitz**. I just said that you might not arrive.

Senator **Andrews**. Well, we were marking up the tax bill and I have got to go right back. We have got a little fight over a thing like C-5, and some other things trying to save $8 billion; but I wanted to come over to make sure, Mr. Chairman, that you listen carefully to our Governor, who knows the agricultural situation and just took the time to go to China, to take a close look at the potential for market development over there, and coming from Minnesota, where you have got many of the same problems we have, I just wanted to make sure that you were all ears for the wisdom that you are going to get this morning from the top officer from the great State of North Dakota.

If we can get $8 billion pared out of that trans bill, we might have some money for egg programs.

Senator **Boschwitz**. That's very good, indeed. I realize now, after you mention it, that your Governor has been to China; I have seen some recent figures depicting the increase of agricultural exports to China, we have a large share of that market, and let's hope that we can continue that.

Senator **Andrews**. Well, he was over there pointing out the difference in quality between Hard Spring wheat, which Minnesota casually raises, and that we very definitely raise, and the type of quality of bread products that it turns out. Also I think he introduced them to the wonderful qualities of pasta, which our Durham wheat—well, you tangentially raise a few bushels of it, but I mean—and he does a great job of selling, and it comes right in the line, Mr. Chairman, that you have advocated for years of how we solve our agricultural problem, and that is by aggressive salesmanship overseas. In fact, if we had a few people of the caliber to put together that firm known as Plywood, Minn., which also kind of leaked into North Dakota and was called Plywood Dakotas, you know, then we do all right. We need more of the Boschwitz type of salesmen and the Olson type is right within that same league.

Senator **Boschwitz**. For a moment, I was going to ask you to go back to marking up the tax bill.

Senator **Andrews**. Now you want me to stay. [Laughter.]

Governor **Olson**. Mr. Chairman, that concludes my testimony. [Laughter.]

Senator **Andrews**. You better hear from the Governor; after all, he came a long way to share his experiences with us, and I would like to listen for a few moments, and if I have to duck out, it is because——

Senator **Boschwitz**. Do you have a copy of his testimony?

Senator **Andrews**. I certainly do,. I agree with every word in it.

Senator **Boschwitz**. You haven't heard it yet. [Laughter.]

Senator **Andrews**. Oh, I—he told me about it.

We work pretty well together. I don't know how you guys do in Minnesota, I hear that—but—[laughter].

Senator **Boschwitz**. Go ahead with——

Governor Olson. I am glad you weren't here. He was going to introduce me as Senator Olson, and I—but he did correct himself.

I do appreciate—I would like to say that North Dakotans do appreciate, Mr. Chairman, I think your interest in the value-added concept and the work that you and Senators Percy, Burdick, and

Andrews and others have done regarding the whole idea of value-added processing for basic agricultural products.

The National Governors' Association is not a Johnny-Come-Lately in this area. I am a member of the agriculture committee and Governor Thone of Nebraska is its chairman; Governor Carlan of Kansas is taking a very active interest in this particular subject; and we have studied the value-added concept and the whole idea of exporting American agricultural products, and of course, take a very serious interest in it.

We would suggest that the Foreign Agriculture Service expand its interest in marketing American agricultural commodities to include value-added products. We believe that there is a tremendous opportunity for market development there and processed products should not be ignored. We hope that the—some $175 million to $190 million which has been provided for in the reconciliation bill will be used in whatever way is appropriate and within the discretion of the Secretary to promote the export sale of processed products.

We are also supportive of the Export Trading Company legislation that is now in the Congress. As Senator Andrews indicated, this summer, I led a trade mission to the Pacific rim countries, particularly the People's Republic of China, and it was clear that we will always have a market, or I should say—not "we," but there will always be a market there provided that they have a stable government and hard currency to spend. The opportunity in that area of the world is significant and it is rather—particularly significant for those of us in the interior of this country.

But it is important that we recognize across this Nation that jobs are at stake, Senator Boschwitz, as you so carefully noted, when we come to adding the value and processing basic agricultural products. Our emphasis in the past has been on the export of the raw products. I think it is time for us to emphasize that the opportunities are there in the processed product; and we are particularly concerned in North Dakota because we are the Nation's No. 1 Durum producing area, which ultimately becomes pasta; and it is our understanding that we now have subsidized products from the EEC that compete on the shelves and supermarkets in this country. And we feel——

Senator **Boschwitz**. In pasta?

Governor **Olson**. In pasta.

And we are alarmed at that prospect of a continued subsidized program from those countries.

We have in our State a significant surplus of product, most of it on the farms and ranches of North Dakota. We need to sell it. I personally support doing business the way the rest of the world does. I am afraid that we may be the only free traders left. As much as we would want the system to work freely and basically on a competitive basis, it doesn't operate that way, and I could recite to you, but won't take the time to do so, several conversations with key marketing people in the People's Republic of China that indicated they always buy at the lowest price they can get and in most cases that involves some type of subsidy from other major agricultural exporting nations.

Senator, you have my written testimony. I don't wish to take up your valuable time any more. Certainly I am here to respond to your questions, either from my perspective as Governor of North Dakota or as a wheat producer or on behalf of the National Governors' Association.

Thank you very much.

Senator Boschwitz. Senator, do you have anything you would like to say?

Senator Andrews. Well, Mr. Chairman, I would like to emphasize one of the points, of the many great ones the Governor brought out, Governor Olson talked about the subsidized pasta products that are now coming in and competing with our Durum. This is indeed a difficult situation for our farmers. American farmers can compete with farmers anywhere in the world, but they have a darned difficult time competing with other governments, and not only in the subsidized imports of pasta products, but as of today, and you know, representing a sugar producing area, as you do so well, Mr. Chairman, of the problem in our sugar markets today. When we export wheat to the European Economic Community, it lands in Rotterdam at about $4.50 per bushel in the hold of that ship, and the European Community tacks a $4.50 figure of tax on it to get it up to the $9, $9.50 bushel support price they have in Europe. Then they take the income they make off of the backs of the American grain producers and use it to subsidize their farm program.

Today, they are paying the producers of sugar in the European Economic Community from 27 to 29 cents as compared to the 17½ cents support price we have for American sugar producers; 27 to 29 cents for every pound of sugar they produce. Because there are about 5 or 6 or 7 percent long in their production, they are now dumping this little bit of surplus sugar on the so-called world market for 8 cents, subsidizing it totally, and just raising hob with any kind of sugar market mechanism around the world. The same thing in the pasta field, and this is not a true world price for either Durum wheat we supported in Europe at over $10, Durum wheat, even above our Spring wheat; it supported Japan at $27.90 a bushel. The cost of production to the People's Republic of China is in excess of $31 a bushel and we sell it at fire sale prices because we can't get through these figures. The same thing with sugar.

Eighty percent of the world's sugar is traded in excess of 25 cents. The rest of it dumps as if it has no home and that is supposedly the "world price". But it isn't. It is a subsidized price that means that sugar producers here, as wheat producers here, have to compete with other governments. That is why the hearings you are holding, Mr. Chairman, are so important, and that is why they touch on a subject that raises hob with our economy as well as with our farm families; and I appreciate your having these hearings and I appreciate your taking the time to listen to a close personal friend of mine as well as one the Nation's outstanding Governors.

Senator Boschwitz. We have to get together and overcome some of these problems, together with our friends from industry and produce those facts to the Department of Agriculture. If what you say is true, and what the Governor said is true, that there is very little free trade that seems to be left, and we are the free traders standing on principle and going down the tube.

Governor Olson. Perhaps one conversation that I had in the People's Republic of China that might be informative to you, Mr. Chairman, and to members of the committee and subcommittee, we were meeting with the chief buyer of wheat from People's Republic of China and on behalf of the major product of my State I was concerned about how we might sell Dark Northern Spring wheat to them. And he said, very directly and very bluntly, that the other major exporting country that China does most of its purchasing from in that area subsidized its product $10 to $15 a metric ton, and he said, Governor, as soon as you do that, we will be happy to——

Senator Boschwitz. Who said that?

Governor Olson. This is in China. This is Mr. Tung, who buys the wheat for the People's Republic of China. It was a very blunt, very candid statement. He said, Governor, if you give us the same deal, we will be happy to do business with you. That is the situation we encountered, and that is the situation that our sales people encounter and my view is that while I—my philosophy is free trade, we need to match the market; and perhaps if this country, as the world's greatest and most reliable producer of all food products, should do that for a year or two, we might purge the system and we might again have a free market. But at this point we don't and I believe we are being taken advantage of at every opportunity.

Senator Boschwitz. We thought about doing that and purging the system. Some people feel that those who are now subsidizing exports would try to wait us out so we would have to go into it for the long pull. We have to recognize that the European countries subsidize their farm producers to the tune of about $40 billion a year as opposed to normally about $5 billion in this country, or even less. This year a little more because of the disasterously low prices. We are in some heavy waters in that regard, and we can't lose our markets.

Governor Olson. That is right. But the water is heaviest for our producers. I just 7 days ago sold quality Hard wheat off the combine for $3.12 a bushel. That is over a dollar less than it took to produce that bushel of wheat for $3.12, and it—we can't last too long that way; we need to market our product somewhere and stabilize the price at a level that is acceptable to our people in business.

Senator Boschwitz. We thank you for coming, Governor.

Governor Olson. Thank you, Senator.

Senator Boschwitz. Our second witness is Bill Lesher, the Assistant Secretary for Economics, Department of Agriculture.

Bill, is Dawson Ahalt going to join you?

Mr. Lesher. Yes. Is it OK if I bring him?

Senator Boschwitz. Yes. May I have your testimony?

STATEMENT OF HON. WILLIAM G. LESHER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

Mr. LESHER. Mr. Chairman, usually I would submit written testimony for the record and proceed to summarize. I apologize for not getting this testimony delivered until about 45 minutes ago. I can read it if you wish, or I will still summarize it. What is your pleasure?

Senator BOSCHWITZ. Why don't you read it.

Mr. LESHER. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to appear here today and discuss with you world and domestic trade in high-value farm products. I commend you and the subcommittee members for your strong interest and support of increasing agriculture exports and welcome the opportunity to discuss this important and timely issue with you.

GROWING CONCERN ABOUT TRADE IN HIGH VALUE FARM PRODUCTS

The administration is committed to an overall expansion of our exports of agriculture products. The American agriculture sector, beginning with the farmer, is the most efficient in the world and will prosper through freer trade. President Reagan took the lead toward freer trade by lifting the 1980 embargo on grain to the Soviet Union and in enunciating an export policy for agricultural exports that provides maximum assurance to farmers and their overseas customers.

Secretary Block directed a considerable enlargement in the authority for export credit guarantees by the Commodity Credit Corporation. He and other USDA officials have traveled throughout the world on trade missions in efforts to stimulate increased sales of agriculture products.

While the administration has taken several steps toward increasing agriculture trade, it has become increasingly apparent that the issue of trade in high-value products, products that have value added through processing or high priced but unprocessed products such as fruits, vegetables, eggs, and the like, needed to be addressed.

The reasons for this include:

One, the value of our agriculture exports is expected to be down this year for the first time in 13 years;

Two, the use of extensive export subsidies by other countries seem to be primarily focused on high value products;

Three, most of the pending 301 trade complaint cases brought on by domestic interests involve these products; and

Four, export of these products not only impacts the farmer but also the overall economy through increased economic activity and greater employment.

Accordingly, sometime ago I asked the Economic Research Service to undertake a detailed investigation of the production and exportation of high-value products. I planned to draw heavily on the findings of this research during this hearing. I believe a discussion of the facts will contribute to an understanding of the complexities involved in international trade in high-value products, and provide a framework for focusing on the difficult challenges that face the United States in capturing a larger share of this important market.

Senator **Boschwitz**. Has that committee reported?

Mr. **Lesher**. No. The report has not been published yet. We anticipate that it will be within the next few weeks.

It started out to be a rather small report but now we are looking at 150 or 175 pages. So it has taken us longer than what we had anticipated.

In this regard, Mr. Chairman, I do not come before you with any recommendation or strategy to deal with this issue; however, I hope that my testimony will aid the Congress in understanding the problem and facilitate the development of effective tools that will fit within the scope of this Nation's market-oriented agriculture policy.

THE 1970'S EMERGING HIGH-VALUE PRODUCT TRADE PATTERNS

It is generally recognized that the decade of the 1970's was a period of remarkable growth in agricultural trade. In those years, the value of world trade in farm products rose more than fourfold, from just about $50 billion to $230 billion. What is often not recognized is that the high-value component of that trade shared fully in this expansion; and by 1980, it amounted to $120 billion. More than half the world's agricultural trade is now made up of high-value products. About half of this trade, the high-value trade, was made up of semiprocessed products, such as flour, oilseed products, and meats. The other half was divided between highly processed foods, such as dairy products and food preparations, and high-value-unprocessed commodities such as fresh fruits and vegetables.

The U.S. share of this market was 10 percent, far below what one would expect, given our comparative advantage in farm production and the cost efficiency of our processing sector. Most of this 10 percent was in the semiprocessed category and not in the highly processed or high-value-unprocessed categories.

In contrast, Mr. Chairman, we had over 30 percent of the $110 billion of trade in low-value products. These products include raw materials such as cotton, tobacco, and bulk food products such as grains and oilseeds. Thus, the United States has done extremely well in expanding the export of the traditional bulk commodities but not so well with high-value products.

A number of developments over the 1970's led to the emergence of two distinct world markets for farm products; a market for bulk, low-value products and a market for high-value, usually processed products. The increased affluence and growth in population worldwide generated faster growth in demand for basic food and feedstuffs than most countries could supply from their own farm sectors. The resulting growth in import demand was particularly strong in grains and oilseeds and the United States succeeded in capturing almost two-thirds of the expansion in this bulk trade.

Increased affluence in the past decade in a smaller circle of developed and middle-income countries also generated stronger demand for higher value farm products. Included among the products in this second group were highly processed items to upgrade and diversify diets and semiprocessed products for use in the local production of highly processed, consumer-ready products. This growth in the high-value product demand was fast enough to out-pace the growth in local production or processing capacity. The end result was a significant increase in high-value product import demand in developed countries, and a phenomenal increase in the high-value product import demand in the middle-income countries.

This increase in import demand was filled by the European Community and to a lesser extent, the United States and a few other developed countries with sophisticated processing capacity already in place.

The result of these high-value and low-value product trade developments was a shift in the U.S. position in the world market. The U.S. share of world agricultural exports increased substantially if measured in volume terms. Almost two-fifths of all farm products traded now originate in the United States, compared to one-fifth in 1970.

However, the U.S. share of world agricultural exports remains at about one-sixth, if measured in value terms. The U.S. share of the world agricultural market actually declined somewhat in value terms if the full range of processed farm products not normally included in the agriculture trade total was considered.

This same phenomenon was reflected even more graphically in changes in U.S. and world farm export unit value over the 1970's. The average price the United States received for its farm exports doubled over the decade in nominal terms but failed to keep pace with the tripling or quadrupling experienced by the other exporting nations that focused on high-value product exports.

The U.S. average farm export unit value price fell from two-thirds of the world average in 1970 to less than half the world average in 1980. In 1970, the average value of U.S. products moving in agricultural trade was $125 a ton. In 10 years, this unit value rose to $260 a ton. Meanwhile, the world average export price almost tripled, from $190 a ton in 1970 to $535 a ton in 1980. The European Community did better still, increasing its export unit value from $400 to $1,250 a ton. The fact that the unit value of EEC exports is almost five times the value of U.S. exports reflects the European emphasis on high-value exports. High-value products make up 60 percent of the EEC's agricultural exports, compared with a 30-percent share of the U.S. agricultural exports.

Also the low-value product share of the market proved to be more unstable than the high-value product portion. As a result, the U.S. concentration of its exports in bulk products tended to worsen the problem of instability in commodity prices and farm income.

Equally important, the U.S. concentration of over two-thirds of its exports in the low-value product market tended to minimize the impact that expanding farm exports had on the rest of the economy. In the most simplistic terms, high-value exports involve selling both a product and a service, a service that tends to be capital and labor intensive. It involves a wide range of economic activity. Low-value exports on the other hand, involve exporting a bulk product or commodity with relatively little labor input, involving only a few areas of the economy outside of agriculture. The concentration of U.S. agricultural exports near the bottom of the foodgrain and feedstuff processing line, for example, kept the unemployment associated with grain exports well below what they would have been with more balanced shipments of bulk products and highly processed products. The loss in GNP potential was even larger.

In many cases, bulk exports limited the economic activity associated with farm trade in the United States to less than half the payoff enjoyed by countries with a more balanced mix of exports. If we had achieved a growth in high-value exports comparable to the growth in our low-value trade, it is estimated that we would now have an additional $9 billion in high-value exports and an additional 350,000 Americans employed in processing, marketing, and handling.

WHY DO WE HAVE THE CURRENT TRADE PATTERN WITH RESPECT TO THE HIGH-VALUE PRODUCTS?

The high-value products export pattern that emerged over the 1970's was due as much or more to Government policies and programs that exist abroad as to market forces at work in the United States. The aggressive, high-value product export subsidy and promotion programs in use abroad, particularly in the EEC, worked to neutralize the U.S input in processing cost advantages and limit the U.S. share of the world's high-value market to 10 percent.

In 1980, the value of EEC exports to the rest of the world totaled $26.5 billion. However, the EEC paid out $7.6 billion in export subsidies in order to move the increasing production of agricultural products resulting from their high internal prices that are well above world levels. Unfortunately, in addition to destabilizing world markets, these subsidies often push EEC export prices below world price levels. Poultry is a prime example.

There was a time when the European Community was the world's largest importer of poultry meat. Today, it is the world's largest exporter of poultry meat. It is subsidizing exports of poultry products into other markets to the point where the U.S. industry has become a relatively small supplier in such markets as the Middle East. The efficiency of the U. S. poultry industry is nullified when other nations are willing to subsidize their exports by 10 or 12 cents a pound, or whatever it takes to undercut the U.S. industry in major world markets, many of which were originally established by American exporters.

The same general situation applies for beef, sugar, dairy, wine and other commodities.

Another major reason is that importers often want to capture the value added associated with the processing. Japan is a good example. Japanese consumers like high-quality beef such as we produce in the United States. But import quotas on beef in Japan make it very difficult to export much of our beef to that country. Consumers in Japan pay about $9 a pound for U.S. produced beef strip sirloin, while in nearby Hong Kong, the same product costs are around $5 a pound; the reason for this huge differential is that the Japanese protect their internal food industry even though it may be sadly inefficient.

Brazil is another example of a country using various taxes, credits, and other subsidies to encourage the exportation of processed products. Most of Brazil's exports of soybeans are in the form of meal and oil because of these policies.

Senator **Boschwitz**. Then they borrow the money from us to pay the subsidies in addition.

THE HIGH-VALUE TRADE OPPORTUNITIES IN THE 1980'S

Mr. **Lesher**. Most of the factors that encourage growth in high-value trade in the 1970's appear likely to continue in the 1980's. The pace of growth in import demand could slow somewhat as high-value consumption in several developed countries move toward saturation levels, and many developing countries increase their local high-value product production and processing capacity.

It was this lack of local processing capacity in many of the fastest growing developing countries, coupled with the demand for more diverse diets in the developed countries that fueled the high-value import growth of the 1970's. The high-value product sector is still likely, however, to dominate growth in farm product trade as the push to upgrade and diversify diets continues in importing countries with limited capital and technology necessary to process food and fiber.

The product composition of high-value product demand in the 1980's is likely to be such that the U.S. share of the world market will be about 10 percent or about what it is right now. The U.S. cost advantage in producing and marketing many semiprocessed products is too great for competitors to totally offset this with export subsidy efforts. But any larger share of the market will be difficult for the United States to capture even though the economic effects would be large.

We estimate by the end of this decade that the high-value product market could reach between $310 to $440 billion and expect, with current policies in place both here and abroad, that the United States would maintain a 10-percent share. If we could capture 15 percent of the high-value market that is anticipated by 1990, we would expect the additional 5-percent share to generate a 1- to 2-percent increase in GNP and about 1.5 million more jobs—500,000 more jobs in the farm sector, and up to 1 million in the nonfarm sector.

Senator **Boschwitz**. How did you get to that figure. A little while ago you were talking about 350,000 jobs.

Mr. **Lesher**. If our high-value trade had grown at the pace our low-value-product trade grew, then in fact we would have the additional $9 billion in agriculture exports in these products and about 350,000 more jobs. Mr. Chairman, these are just estimates. Anyone can quibble with the number and say you are either too high or too low. The really important finding here is that the number is large; that the impact would be quite large if in fact we increased 5 percent. Now, 5 percent sounds like a very small increase, but when you are talking about billions of dollars in trade, that is an awfully big increase.

Senator **Boschwitz**. If $9 billion were to net 350,000 jobs, $22 billion probably would net a million and a half jobs, but nevertheless, the figures are very large. Go ahead.

CAN AN INCREASE IN THE U.S. HIGH-VALUE TRADE MATERIALIZE?

Mr. LESHER. So far I have discussed the growing importance of the high-value market; stated that other countries have captured a large share of this market through, among other means, unfair trade practices; speculated that future growth will probably occur in this market; and suggested that if the United States could increase its share of the high-value-product market from 10 to 15 percent, this would mean much in the way of increased employment and GNP. Achieving this will be difficult at best. There are several reasons why this is so.

Mr. Chairman, when you talk about trade in high-value products, you are talking about an extremely sensitive issue; you know that high-value products pass through several hands; you have the multiplier facts, and so any increased trade in this area gives a big boost to your economy.

Well, that is all well and good, but I think we have got to look at things as they are, straight in the face, and say it is going to be difficult. Here are some of the reasons why:

First, the trade policies of other countries are well established and change will be slow. The common agriculture policy of the European Community has been in place for a long time and appears to be the glue that holds the EEC together; and in spite of its high cost, it is accepted by the general citizenry.

The same is true for Japan. The Japanese have had limited access to their market for high-value products since World War II and change will come slowly. Second, the EEC and Japan, for example, are already our best customers for bulk agricultural products. Japan ranks as the No. 1 customer for agricultural products, purchasing huge amounts of feedstuffs each year. Last year, Japan purchased $6.7 billion, or 15 percent, of U.S. farm exports. So we have to deal carefully with this issue in order to find a solution that is compatible with our trading partners' objectives. In this case, we are trying to convince the Japanese that they can preserve their own domestic feeding industry, which is mainly poultry and pork, while at the same time provide their consumers with high-quality imported fed beef. The same is true for the EEC. We have a net surplus of agricultural trade with the EEC of about $8 billion, mostly for products that do not fall under the CAP, such as soybeans, soybean products, and corn gluten feeds.

Third, after trade flows get established, they are slow to change. This is human nature.

Fourth, after a country has established the large high-value product market with all the associated employment and GNP impacts, they are reticent to give up part of that market. Thus, to force them to do so could be extremely expensive.

Fifth, our export expansion and promotion activities have focused primarily on bulk agriculture products. Maintaining this effort is essential. Developing the high-value market will take time.

In summary, Mr. Chairman, our traditional export focus has been on expanding bulk agriculture commodities. This policy has served U.S. agriculture well. Moreover, we must continue to export these farm commodities in order to allow our agriculture to operate efficiently. Our efforts to expand high-value products must be carefully analyzed to insure that sales of farm commodities or semiprocessed products are not adversely affected. I believe that we can pursue trade expansion policy that will allow this Nation to export agriculture commodities at all stages of the processing. It will take time and much effort, but the results could be significant. There are opportunities today for the United States in expanding our exports of value-added products. However, increasing our trade share of the market presents great challenges. This hearing is a building block in tackling the tasks ahead. We in the Department of Agriculture look forward to working with you on this important matter.

One final comment. We have a series of charts that give a little more detail about some of the things that I have talked about, Mr. Chairman. I will give them to you. You can decide what you want to do with them: put them in the record, not put them in the record; it is up to you, but I will give them for your use. Pat, Dawson, Bud and I will try to answer any questions that you may have.

Senator BOSCHWITZ. We will put those charts in the record, and they will be a valuable addition.[1] You have made an absolutely brilliant explanation of the problem and then in the last half page, said we are going to have to study this.

Mr. LESHER. Well, not necessarily study. All I am trying to suggest is that——

Senator BOSCHWITZ. It will take time and much effort.

Mr. LESHER. Yes. One should proceed with that in mind; anything worthwhile, as you know, takes a lot of time; and this probably is going to be one of them.

Senator BOSCHWITZ. After trade flows get established, they are slow to change, you said in point No. 3. Governor Olson pointed out that the Chinese buy on price. One of the reasons that the Europeans have made such vast impact on the market is price.

Mr. LESHER. Yes.

Senator BOSCHWITZ. Chickens are chickens. Butter is butter. It would seem to me that they are commodities. I think that we could make some changes.

What do we do? I have some questions that developed during the course of your testimony, and I wrote them down. I understand that trade policies are well established and change will be slow. The CAP of the EEC has been in place for a long time. We don't want to sell them; we just want to sell their customers. But we understand we are not going to sell value-added products probably in the EEC, and I also understand that we have a very large trade surplus with them that they are trying to undermine on the other hand by putting a binding of some type on soybeans, soybean products particularly. But what do we do?

Have you, Dawson, Bud, or Pat, come up with some suggestions for us? Or should we go out and pass a bill? We are just saving $8 billion here on the defense budget, my friend Senator Andrews says. Maybe we will drop some of that money on agricultural exports. What happens if we start a little wrestling with the European Community and some of our so-called friends?

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[1] See p. 66 for the charts referred to by Mr. Lesher.

When the President announced this business with the gas pipeline, it was fairly clear to me that they could go out and buy a lot of materials elsewhere, and I thought he had something more in mind. It is like embargoing grain. They could go out and buy somewhere else. Then that was not the answer.

I thought that he had a broader approach in mind—always trying to give the benefit of the doubt to the Chief—and I don't see that coming. I thought that he was going to perhaps solve some of the defense problems that we have with some of our friends in Europe. The Europeans not only nail us on agricultural exports but we have spent $17 to $18 billion a year defending them. I thought perhaps he was going to right some of those wrongs. The same with the Japanese. That this was going to be a sort of an effort to bring about adjustment in many of the inequities that exist in the world marketplace. It doesn't seem to be developing that way, and I am going to have to take that up with the Department of Commerce.

But what can we do in high-value products in that market? Do you have—have you gotten past the business of defining the problem into—defining some of the answers?

Mr. LESHER. Well, I think this study has really brought to the fore what the questions are. Over the last 10 years there have been some rather tremendous changes in agricultural trade. Ten years ago, the bulk commodities were about 55 percent of the trade, high-value products, about 45 percent. In 10 years things have flip flopped. Now it is 55 percent high value and 45 percent bulk, and you look at how they have done it; you look at the enormous subsidies on certain commodities like beef in the European Community. They have to be eliminated. For every dollar of beef the EC sells, it takes a dollar of export subsidy to move it. You suddenly figure out why this has happened. The EC has designed a policy to keep their employment numbers fairly high. They have chosen to do it through subsidies on processed agricultural products.

This study really, for the first time, puts things in perspective. You will see this as we go through the charts by commodity and market by market. Over the last 10 years there have been some dramatic changes. Now, you asked a tough question, the right question. I don't have a good answer to it. Clearly, if you take the position that the EC is going to do what they are going to do and we shouldn't fuss about it, then we have serious problems, for our agriculture in the longer run.

We feel that our agriculture is the most efficient farm sector in the world, and that with freer trade, it would prosper. As a matter of fact, we believe strongly that in the long run interest of farmers, exports are going to have to increase. If not, we are going to have to look at shrinking the American agricultural plant, something that we do not wish to do. We do not think it would be ours or in the world's economic interest

However, the question is, how do we get a larger share of the agriculture trade? Then it gets down to price and other things. There are extremes. There is the status quo, and there is an all-out trade war. There are costs associated with both strategies and then there are probably some in-between approaches.

Senator BOSCHWITZ. With all due respect to my friends at the Department of Agriculture, you are perhaps suggesting that the other guys are 10 years ahead of us, and quite clearly they are more aggressive than we are with respect to subsidization.

Mr. **Lesher**. You can talk to 10 different people Senator, and get probably 10 different answers. So I don't mean to suggest that I am a definitive source or more of an expert on this topic than anyone else.

Basically countries around the world, first and foremost, like to have an agricultural sector. They like to have a viable agricultural sector. They do not want to be totally dependent on someone else for their food. Now, you can say economically it doesn't make sense, and in fact in some instances it may not, but yet there are other considerations that seem to lead most countries to want to develop an agriculture sector that is strong and viable.

Senator **Boschwitz**. Well, they have had starvation.

Mr. **Lesher**. Yes. Other countries are looking at the United States and saying; they have quality land; they have the weather; they have farmers with sharp, good management skills. They are saying, can we really compete head-to-head with the United States in producing a bushel of corn or a bushel of wheat or a bushel of soybeans. The answer is clearly they do not have the comparative economic advantages. These countries are saying what can we do to keep an agricultural sector in our country going. Then they look at processed products. In some cases they have the least disadvantage in establishing a processing industry. I think that in certain instances this is what has happened.

But the problem is that in fact we also have an efficient processing industry; we not only think that we could do a good job of producing a bushel of corn or soybeans and should continue to do so, but we also think that in fact we can compete head-to-head on processed products, too. But they have gone ahead and established, in certain countries such as the European Community, a highly sophisticated, but heavily subsidized, processing industry. Now it is going to be tough.

Senator **Boschwitz**. You continue to define and redefine the problem. We have to come up with some solutions. I know that Bud is very knowledgeable, and so is Mr. Ahalt. Maybe they want to comment.

Mr. **Lesher**. Maybe they want to comment, but perhaps they shouldn't——[Laughter.]

On your question of what to do.

You are a fair man, and you know this is a tough business. What you are asking for is the core of the issue. You quickly didn't mess around with 10 other questions. You are asking a very tough question.

Now, I come from a farm background; I may have certain ideas, but in fact, I am here today representing the administration and the administration has many different goals and aspirations and to ask that you come in with a definitive plan is a tough one, and I will tell you why.

Some say, well, you should use export subsidies. They suggest that the $175 million to $190 million that Congress included in the budget reconciliation should be used for that purpose. They will say it is no big deal. Well, it transcends the money issue. You are talking about the United States embarking upon a different trade policy, a trade policy that not only affects agriculture but the rest of the economy as well; it affects the total government.

So in fact, we should not make these decisions overnight, in 5 minutes or 10 minutes, or 1 week. And perhaps we shouldn't reach them in that short a time, given the consequences of what we are really talking about. In agriculture, we think this is a serious problem. You can tell by our testimony that we do. We've researched but it's still difficult to answer your question. All of us would like over time for other countries to reduce their subsidies so we could return to freer trade. Any policy that would move you toward that goal would probably be in the best interest of everyone in the world.

Senator **Boschwitz**. As you know, I have the highest respect for you.

Mr. **Lesher**. I have a lot of respect for you, too.

Senator **Boschwitz**. Thank you.

You have, if I may respectfully say, gone from stating the problem to now making excuses. We do have to get into this, so let me restate the question somewhat differently. Rather than saying, what are the answers and perhaps you quite correctly say that the answers have many ramifications. I didn't grow up on a farm, but the fact that I am the Senator from Minnesota and grew up in and around New York. I developed good trading instincts. I believe you have to sell low; you can't fool around, and a chicken is a chicken, and it is all commodities, whether it is processed or not, we can take the market if we have to. I think that we certainly have the economic resources to do it. I didn't realize Brazil was in the business of subsidizing its exports, but you know, we subsidize its economy with bank loans.

Mr. **Lesher**. Well, their program is geared toward internal investment incentives, et cetera; credits are geared toward the processing. The bulk of their soybean exports are in the processed form; only about 10 percent are beans.

If Brazilian exporters sell beans, they have to pay corporate income tax; if they sell meal and oil, I believe taxes may be forgiven. Bud, is that correct?

Mr. **Anderson**. Yes, basically.

Mr. **Lesher**. Their program is geared toward them developing their processing industry internally.

Senator **Boschwitz**. That is an imaginative part of a possible answer, too, that we can do things that way. Maybe if we could rearrange the taxes but we have some people on other committees who would holler about that.

Let's say that we aggressively went on the world market—for the moment, we won't say what aggressively going on the world market means—but just remember us who have been in and around New York, aggressive means aggressive.

[Laughter.]

Senator **Boschwitz**. What would happen with our so-called friends and allies in Europe and Japan? What would their reaction be? Maybe Bud Anderson wants to respond.

Mr. **Lesher**. I don't know what their reaction would be, it depends. We have a large share of the wheat trade in the world. So if you go out and take some aggressive trade actions, as you say, on wheat, it is going to cost the United States a lot of money, because we have most of the world trade, in wheat. That means for every bushel we have to pay or there is no effect. Now, take dairy. The reverse is true for dairy. We do not have a very large share, as you know, of the dairy world market. In fact, if we took some trade actions on dairy, the costs would be reversed. Those are just two examples.

It is difficult to give answers to broad questions because it is hard to avoid getting into specifics. Thus, we are likely to get into a real dog and cat fight here as far as what the implications are.

Senator **Boschwitz**. One of your former assistants has passed me a question to ask and I will expand on it.

Mr. **Lesher**. You should never ask those questions from those assistants, sir. [Laughter.]

Senator **Boschwitz**. Would money spent currently on the reserve and loan program be better spent on export promotion or some type of exploit subsidy?

We could divert those moneys, and use it like I believe some of the European nations, particularly the French, do.

Mr. **Lesher**. Madame Cresson?

Senator **Boschwitz**. Oh, yes. Maybe we should get somebody of her caliber. She certainly was most attractive when she came here, and I took a very tough line with her, you know. Some of our Senators did not.

But maybe we should do what they do. Don't spend money on storage or on interest just spend money to sell it to somebody.

Mr. **Lesher**. I think that you would agree that if we got into the business of subsidizing exports and each nation were spending billions of dollars to do that, both would be losers and the gainers would be those that were buying our product. It would have to come in the end to a net loss, to society and to the world.

Senator **Boschwitz**. Right now we are suffering the net loss, however, because the other people are doing it and we are not. The result is we have the bins full and in North Dakota they are figuring where to put it. We have to come up with some pretty hard-minded answers.

Mr. **Lesher**. I would add one thing. I looked at draft materials of the study, and it appears to me that the United States in general does not spend as much on export promotion efforts as other countries do to promote their products. We spend about one-tenth of 1 percent on export promotion. It that right Bud?

Mr. **Anderson**. Yes.

Mr. **Lesher**. Is that right?

Mr. **Anderson**. It is a little less than two-tenths of 1 percent.

Mr. **Lesher**. A little less than two-tenths of 1 percent. Other countries, both from the government and the private sources, spend more than that in promoting exports. I didn't mean to gloss over that. That is part of the study.

Senator **Boschwitz**. Well, I would like to see the study when it comes out. It never is quite clear to me what the Europeans do. In their restitution, they don't just go down to the world market price, but they actually subsidize—just to give restitution to the world market price is not to me a subsidy.

Mr. **Lesher**. When a country has high internal prices, they have got to get the price down so they can move their products on the world market. The country takes bids—on a competitive basis, in order to pay the lowest restitution that will move the products on the international market.

Mr. **Anderson**. Well, in most cases it is fixed, but on the grains, they look at the grains on a daily basis and are set to levy on the basis of how they see the world market for a particular grain developing.

They can prefix ahead for a period of time, whether the market conditions change.

It is kind of like playing the market, the stock market. If they hedged right they can make money, really, on the fixing, the prefixing of the levy, and that is part of the uncertainty of it, that really plays on the market and makes it very, very difficult to compete.

Senator **Boschwitz**. On page 6, Bud, Bill says that the EEC paid out $7.6 billion of export subsidies. Some of that was not just the restitution to bring the products down to world price levels, but below; what it takes to move it; is that correct?

Mr. **Anderson**. That's true; 40 or 45 percent was used to move dairy products. The Community is the largest dairy exporter and the subsidies on those dairy products are very, very significant, 50 percent or better in some instances. So, it means they sell quite below the———

Senator **Boschwitz**. That means they sell at $6 or $7 a hundredweight.

Mr. **Anderson**. Yes. There are some estimates in here about the level of subsidies that they use.

For example, on cheese, their support price for Danish-type cheese is $1.10. They are subsidizing about 27 cents a pound. If you get into nonfat dry milk, with nearly a $1,500 per ton EEC market price, you have got an export refund of $860 or so; that is 54 percent of the wholesale price. It is higher in beef; the subsidy is 83 percent of the beef carcass price, and they range all over with the 10 percent on broilers being about the lowest. They are just selling into the world market at whatever price they can obtain.

Senator **Boschwitz**. Well, we thank you very much. We will just have to get back together and work on a way to improve our situation.

Mr. **Lesher**. Well, we appreciate, Mr. Chairman, your leadership in this area. Your interest in increasing exports is well known, and anything we can do to help out, let us know.

Senator **Boschwitz**. It is nice to have an interest in it, but we really have to take the necessary steps to achieve the results that we want.

Mr. **Lesher**. Thank you.

Senator **Boschwitz**. Thank you very much.

We have this morning an industry and labor panel. To my immediate right Richard Coonrod, of the Pillsbury Co.; then Jack Reed, of Archer Daniels; Dan Shaughnessey, of Western Great Lakes Maritime Association; and to my left is Howard Samuel.

I understand you have some time limitations Mr. Samuel.

Mr. **Samuel**. Yes.

Senator BOSCHWITZ. In your absence, Frank Hoese will remain?

Mr. SAMUEL. He will stay.

Senator BOSCHWITZ. We will proceed with your testimony, Mr. Samuel.

STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, ACCOMPANIED BY FRANK HOESE, PRESIDENT, AMERICAN FEDERATION OF GRAIN MILLERS

Mr. SAMUEL. Mr. Chairman, really, I would like to futher abbreviate my statement.

Senator BOSCHWITZ. Sure.

Mr. SAMUEL [continuing]. And if it is also agreeable, there is a more lengthy statement which I would like to submit for possible inclusion in the record.[1]

Senator BOSCHWITZ. Lengthier than the one I have here?

Mr. SAMUEL. Yes, sir. This is——

Senator BOSCHWITZ. Sure.

Mr. SAMUEL [continuing]. In effect a summary of that statement.

Senator BOSCHWITZ. Yes. That will be just fine.

We already have the longer statement?

Mr. SAMUEL. I believe so.

Mr. Chairman, I am Howard D. Samuel, president of the Industrial Union Department of the AFL-CIO. Accompanying me, as you noted, is Frank T. Hoese, the president of the American Federation of Grain Millers, and I have asked President Hoese to feel free to add to my remarks when I finish this summary statement.

The two of us are here representing the industrial union department and ten international unions which, along with the IUD, are participating with the Corn Refiners Association, the Millers' National Association, and the National Soybean Processors Association, who work together in the Export Processing Industry Coalition, or EPIC.[2]

The participating international unions include the Allied Industrial Workers, Mr. Hoese's union, the American Federation of Grain Millers, the Bakery and Confectionery and Tobacco Workers, the International Molders & Allied Workers, the International Union of Operating Engineers, the International Woodworkers, the Oil, Chemical and Atomic Workers, the United Brotherhood of Carpenters, the Cement, Lime, Gypsum and Allied Workers, and the United Steelworkers of America.

We are joined together in our recognition, Mr. Chairman, that labor has a vital stake in agricultural policy, particularly agricultural trade policy; and that stake, of course is jobs.

American agriculture provides hundreds of thousands of jobs for America's workers, in farm machinery manufacturing jobs and in fertilizer producing plants, in petroleum refineries, fueling farm production equipment, and grain milling and other agricultural and first processing plants, jobs in food fabricating and distribution plants and in the heavily utilized transportation network moving farm products and food supplies: railroads, trucking firms, and barge lines

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[1] See p. 72 for the prepared statement of Mr. Samuel.

[2] See p. 73 for a background paper on increasing U.S. exports of processed agricultural products furnished by Mr. Hoese.

We benefit, as does the country's entire economy, from all agricultural exports. But naturally, we benefit more, as does the rest of the economy, when a greater percentage of agricultural exports come from higher valued products that have moved farther along the processing and food system chain, thus involving more workers and adding value to the original unprocessed farm products.

We are united behind the concept that more vigorous efforts to increase our share of world trade and high-value farm products offer us the greatest potential benefit to the entire U.S. economy—for the farm producers, for the domestic processing industries, for workers in American plants and for the Government itself, through increasing the base for Government tax revenue.

We welcome the economic studies by the Department of Agriculture that demonstrate the tremendous multiplier effect on stimulating job income growth that can result from increasing exports of value-added farm products. They have become the basis of EPIC's educational efforts to increase the awareness of the agricultural, government, and labor communities of the benefits of exports of value-added farm products.

Mr. Chairman, we welcome these hearings as further contributing to our mutual goals.

Historically, depressed agriculture has always led to slackening in the nonfarm job market. Also, historically, unemployment and depressed purchasing power has always led to lower farm prices and worsened the economic plight of farm producers.

Today, both the agricultural sector and the nonfarm economy are in serious economic disarray. The depressed farm economy has led to closings in farm machinery and fertilizer plants, throwing thousands of workers out of jobs. And the depressed purchasing power, resulting from some 10 million unemployed workers in this country, is further eroding the domestic food markets for American agriculture.

Farmers and industrial workers alike urgently need something to turn this situation around, and do it quickly before it gets worse. We think vigorous Government action to expand exports of value-added processed agricultural products can and should be part of the answer.

We are proud of the cost efficiency of the American agricultural production and processing system. On fair terms, we can compete with any producers or processors in the world—with the comparative advantage on our side.

But we cannot compete, Mr. Chairman, when the rules of international trade are stacked against us by foreign governments. Neither U.S. farmers nor U.S. processors can compete with the treasuries of other governments.

Members of EPIC feel that the U.S. Government must play an active role in reducing the nonmarket factors which serve as barriers to increased American exports of processed grain and oilseed products.

Currently, U.S. exports of processed agricultural products are being eroded by foreign government subsidies, which enable foreign producers to substantially undercut U.S. processors in third country markets. U.S. processed exports are threatened with withdrawal of long-standing, duty free tariff bindings in Europe, which would seriously limit U.S. exports of these products. These are but a few of the numerous examples of foreign government action which affects the trade in processed products.

We think it is time to call a halt. We think it is time to put our foot down in international negotiations, and stand up firmly for American producers, American processors, and American workers.

For that reason, Mr. Chairman, members of EPIC believe that in addition to strong promotion efforts by the private agriculture sector, more vigorous involvement by U.S. Government agencies is necessary to create a climate for growth in export markets for processed products of soybeans, wheat, and corn.

Mr. Chairman, we believe vigorous efforts to increase our share of the world market in processed agricultural products could provide an important stimulus to the depressed U.S. economy, with a resulting increase in jobs and better return for American farmers. No one is opposed to these statements but we think the time has come to move from rhetoric to action.

And if I could, Mr. Chairman, to anticipate perhaps one of the questions you might ask, a question you did ask before, and that is, Should we institute a system of export subsidies ourselves?

Let me suggest to you that none of us, I think, wants to get into international competition on export subsidies. Probably the United States would end up the loser, because we are not as effective, as forceful, and we are not as ruthless as our trading partners. But unless we arm ourselves with the potential of imposing our own kinds of regulations, then we are going to be the losers. And if I could point out a parallel to you it is our recent experience in the export credit subsidy problem. We were faced with the problem of other countries with substantially better export credit subsidy terms than our Ex-Im Bank in the United States. And we found ourselves in international negotiations in a state of disarmament. Other countries were well armed; we were disarmed. It seems to me that if it takes either the threat or the existence of an export subsidy to bring other countries to the bargaining table to us, with us, so that we can negotiate a fair and equitable system of international trade, then we ought to look to see if that is the answer.

I can only tell you that if the U.S. labor movement negotiated in behalf of its members as poorly as the U.S. Government negotiates on behalf of some of its sectors of the economy, workers would even be in worse shape today than they are.

Thank you, Mr. Chairman.

Senator Boschwitz. There's a man who is direct. You were also restating the problem. I am glad you got down to the point, and that is, that we can plan a different course and be playing the same game. I am interested to hear what some of our friends from industry have to say, but quite frankly, I take a more sympathetic look on some of the things I see coming down from various other committees, and from your union with respect to automobiles and other goods, that all of these trade issues, in my judgment, are interrelated. Sometimes you can get at the problems of agriculture somewhat faster by including other items of trade.

So you are, if I may summarize, for aggressive action?

Mr. **Samuel**. Yes, sir.

Senator **Boschwitz**. Does your colleague, Mr. Hoese, have any remarks?

Mr. **Hoese**. I have a few remarks I would like to make.

The reason that we are so interested in the resolution with the value-added products is because several of our flour mills are down to 2 and 3 days—are working 2 and 3 days a week.

We have some soybean operations running short time and one of the plants is going to be down for a period of 18 months, shut down the first part of this year and will be down until the fall of 1983. We have to work on those. They are in a very serious position. Several of the wet corn mills have been shut down in the last 2 or 3 years, and the U.S. workers and industry are the most productive in the world, and we also believe in the free trade concept. But more important, it must be fair trade. We cannot compete with foreign products which are highly subsidized by their governments. That is all I have to say at this time.

Senator **Boschwitz**. I thank you, Mr. Hoese. Let me make a comment or two.

You talk about the number of mills shutdown. We are very aware that ports are sometime shutdown. I don't mean to suggest that anybody should be denied the option or opportunity of striking to improve his or her life, but that is also part of the problem. And one of the overriding problems that we have discussed in other hearings is—and I address this to both you, Mr. Hoese, and Mr. Samuel, is the fact that the Government has imposed embargoes on the funds of some of our trading partners, and that the trading partners have quite understandably gone elsewhere. The result is that we have a very great problem in obtaining those markets back. Sometimes those embargoes have been imposed by unions who have not been willing to ship in certain instances and I would enjoy talking to you sometime about that. Those kinds of embargoes are as unpredictable, perhaps even more so, than Government-type of embargoes, but yet have the same long-term impact.

Just as you want to keep your workers working, we want to keep farm prices up. As you very correctly point out, when farm prices go down, and the agricultural sector does poorly over a period of time, it is always reflected up the line, to people who earn a living. I have a great sense when farmers are not doing well. So we thank you very much for coming, and for being so direct in your statement of what should be and of the problem.

Mr. **Samuel**. Thank you.

Senator **Boschwitz**. Will you be able to stay?

Mr. **Hoese**. I can stay; yes.

Senator **Boschwitz**. Thank you.

Mr. **Samuel**. Thanks very much.

Senator **Boschwitz**. I am not quite sure what the order is here to my right but, Mr. Coonrod, if you would start.

STATEMENT OF RICHARD COONROD, EXECUTIVE VICE PRESIDENT, THE PILLSBURY CO.

Mr. **Coonrod**. Thank you, Mr. Chairman.

Members of the committee, my name is Richard Coonrod. I am the president of the Agri-Products Group of the Pillsbury Co., headquartered in Minnesota. Minn.[1]

I am pleased to have the opportunity to talk to you this morning about the importance of value-added products as part of our U.S. agriculture economy.

As you have heard from a number of the representatives of both agribusiness and labor organizations, the EPIC group, the Export Processing Industry Coalition, of which we are a member, consisting of the Millers Federation, farm refiners, soybean processors and the Industrial Union Department of the AFL–CIO is a unique labor-industry coalition dedicated to increasing U.S. exports of processed agricultural products. On behalf of EPIC, I would like to commend you Senator Boschwitz, and other members of the committee, for focusing on the subject today of exports.

I also would like to commend the Economic Research Service of the USDA for their recently completed study which compares the economic benefits of processed versus commodity exports. The Department's study is the most realistic assessment today of the economic benefits generally from the export of value-added products. A number of studies have been published during the last 3 years which attempt to estimate the economic activity generated through value-added products.

Senator BOSCHWITZ. Is that the same study that Bill Lesher spoke about?

Mr. COONROD. Yes, sir, and you have the detail of that.

Senator BOSCHWITZ. Mr. Coonrod, I apologize; I did not know the fact that we have been joined by Senator Dixon, of Illinois. I don't want to interrupt your testimony. I recognize that you are here and, at the conclusion of this testimony, if you want to make a statement feel free.

Mr. COONROD. A number of studies over the past few years have attempted this but the economic activity generated to exporting value-added products. Most of these studies have overstated the economic benefits. There are points where they have actually been a disservice to those of us most interested in seeing the Department of Agriculture adopt a comprehensive export policy which emphasizes value-added exports. I believe the ERS study provides support for redirecting current export policies programs in the direction of value-added products.

Each of the members of EPIC who will present testimony to the committee today will focus on the benefits of exporting various types of products and processed agricultural products.

As a representative of the Pillsbury Co., I would like to focus on two specific value-added products, wheat flour and edible protein.

Pillsbury is one of the leading U.S. flour exporters, averaging 3.7 million hundredweights per year since 1977. We at the Pillsbury Co., would recommend that Secretary Block and his staff closely examine the economic benefits of exporting additional quantities of wheat flour.

The ERS study, which I referred to earlier, compares the economic activities generated from the exporting of raw bulk agricultural products, wheat versus flour; and it is obvious to see that there are significant benefits in exporting the value-added product. The more sophisticated products——

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[1] See p. 77 for the prepared statement of Mr. Coonrod.

Senator Boschwitz. Read the numbers.

Mr. Coonrod. Would you like the numbers?

Senator Boschwitz. Sure.

Mr. Coonrod. The study shows that economic activity generated for exporting 1,000 tons of wheat, versus an equivalent amount of flour, 740 tons. The ERS found that 1,000 tons of exported wheat generated $295,000 in economic activity; and 4.5 man-years of employment. However, an equivalent amount of flour was exported, approximately $400,000 in economic activity and 6 man-years of employment were generated. And as you extend these processing equations into more sophisticated products, you recognize even greater values of employment and economic activity, and the benefits therefrom.

It is interesting to note, Mr. Chairman, that in 1981, the U.S. exports of wheat and wheat products totaled 1.8 billion bushels. It is distressing to note also that less than 5 percent of these exports came in the form of flour exports when converted to an equivalent-wheat basis. And in accordance with our figures, we feel that the milling capacity of this country could very easily double. The quantities that we exported in the form of flour last year were about 80 million bushels. And certainly, as Mr. Hoese mentioned earlier, the milling capacities are there, in place, and able to deliver at least twice that quantity of flour into our export markets.

So, Mr. Chairman, it is obvious from these statistics that an export policy which generated additional wheat flour exports would first add—generate additional economic activity in the United States; create additional jobs in the United States; better utilize our existing milling capacity, which currently is operating at about 80 percent of capacity when measured on a 6-day week, and maybe by U.S. standards of industry today, it isn't all that bad, but it is certainly not up to the capability of our milling capabilities.

Senator Boschwitz. But capacity has come down.

Mr. Coonrod. Milling capacity has been virtually flat. Year over year, there is not a significant change in our capacity. This relates to the flat situation in the manufacturing and food processing industry.

And we will also be able to provide products, particularly in the case of many developing countries which can be directly consumed by their populations. Given this situation, I would like to make the following recommendations to this committee and the Department of Agriculture, concerning wheat flour exports.

First, conduct a full review of wheat versus flour exports under title I of the Public Law 480 program. It is clear that the United States is subsidizing wheat exports to countries where an increase in their own milling capacity, while at the same time importing subsidized wheat flour from the European Community at our expense.

And, two, I think it would be important to earmark a portion of the export promotion program funds recently included in the omnibus budget reconciliation bill by Senator Helms for wheat flour. Direct subsidies combined with interest buy-down system of 3 to 5 year export credits which stimulate commercial flour exports from the United States to certain world flour markets. This effort, which has been endorsed by the Multi-National Federation, should be targeted at Egypt. An allocation of $50 million would generate approximately 500,000 metric tons of U.S. flour exports. In addition, these exports would hit directly at the Common Market subsidies and practices, specific to our longstanding and unresolved trade complaint under the GAP.

Senator Boschwitz. 500,000 metric tons of flour, produce—how many bushels of wheat would be involved?

Mr. Coonrod. I would say somewhere around 20 million bushels. That would increase our exports some 25 percent. It is not a total solution, but it is a significant quantity in terms of the production and exports that we currently are putting out.

Turning to the item of beans, last spring we acquired the edible bean protein, the edible protein division of the Wicks Corp. With this acquisition, Pillsbury became the largest U.S. processor, marketer, and exporter of edible beans.

For those of you unfamiliar with the edible bean industry, a little background might be helpful.

The leading bean producing States are Michigan, California, Nebraska, and North Dakota. These six States got 72 percent of the 1981-82 production. The U.S. edible bean production has doubled since 1965, increasing from 16 million hundredweights to 32 million hundredweights in the 1980-81 crop year. It is predicted to be somewhere between 6 million hundredweight production level in the 1982-83 crop year.

Prior to 1978, the Common Market was the largest importer of U.S. edible beans, accounting for over 40 percent of our total exports. However, Mexico suffered two consecutive poor crops in 1979 and 1980, and it led to a dramatic increase of U.S. edible bean exports to Mexico. That does not, however, look to be of our strong harvests in this crop year.

Dry edible beans are a processed product which the Department of Agriculture has generally overlooked when it comes to its export program. Edible beans offer, particularly to developing countries, a cheap source of high protein too which can be used in a variety of ways. They are easily handled by developing countries who lack sophisticated infrastructure of transportation and marketing. Few resources are currently being provided by the Department to expand edible bean exports. No funds have been programed in fiscal 1982 and 1983 under the Public Law 48 program. In fact, the only aid, which is currently being provided by the Department is some $75,000 which the Foreign Agriculture Service is spending in market development programs. This is being done in concert with the National Dry Bean Council.

It is time for the Department to refocus their export programs to include products like edible beans. Such an effort would help both producers and exporters and in the light of a 50-percent decline in edible wheat prices over the last 12 months, this is particularly timely and important to this industry. Prices today for some variety of beans has gone from $30 to $15 a hundredweight and for other varieties that are in the northern States, from $20 to $10 a hundredweight. So price declines in this segment are even more dramatic than they are in some of the other general commodities, such as wheat and corn.

Senator Boschwitz. Have you been able to increase your exports, with some with of the decline in price?

Mr. Coonrod. We believe that that will be an opportunity for us as we come into the new crop year. We think that the economic leverage there will help us. However, we don't think that is going to be an absolute solution to the imbalance in production and consumption. There are other countries in the world who also have good bean production and prices there, as you might suspect, are also low.

So specifically, I would like to recommend that the Department first allocate funds under title I and title II of Public Law 480 for the fiscal year 1983. A number of countries in Africa and Latin America have expressed interest in purchasing our edible beans. However, they lack adequate foreign exchange to do so. So again funding is an important issue in the movement of these products.

And, two, we would like to include edible beans as part of any credit packages offered to countries which are potential markets.

Recently, the U.S. extended a $1 billion credit line to Mexico, which over the last 2 years has received about 35 percent of our exportable edible protein. However, little attempt was made by the Department to include beans as part of that credit package. In this case, edible bean producers and exporters lost a valuable chance to gain some additional export sales. We are hopeful that it is not too late to get proper consideration for edible beans as part of that credit package.

So in summary, I would like to make two specific suggestions regarding value-added exports and the USDA's current export program.

First, I would like to encourage Secretary Block to appoint a task force to analyze all of the existing export programs, including Public Law 48 and GSM 102 and the market development program. This task force should consist of representatives from the USDA and the State Department. In addition, the task force should include representatives from producer groups, cooperator groups, and the export industry. Such a task force should focus on the question of whether USDA's emphasis over the past three decades on bulk commodity exports should be altered.

Specifically, such as task force should analyse the impact of these export program on first enhancing farm prices; second, generating economic activity; third, creating additional employment opportunities; and fourth, providing importing countries with products which are high in nutritional value and directly consumable.

And second, we would like to recommend that the administration and the Congress, as they begin to rework the Caribbean Initiative for the next session of Congress, consider adding a major food aid package as part of the revised program. A major focus of such food aid package should be value-added products, including wheat, flour, and edible beans.

Including the food aid package as part of the Caribbean Initiative effort would generate additional goodwill from recipient countries, while at the same time providing another outlet from the growing surplus of agricultural products.

Thank you very much, Mr. Chairman. I would be glad to answer any question.

Senator BOSCHWITZ. I turn to my colleague, Senator Dixon.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator DIXON. Mr. Chairman, may I first apologize for my lateness in attending the very important subject in the meeting you are chairing. I spent over an hour at the Veterans Affairs Committee before coming over here, and unfortunately I have folks waiting in the office and cannot remain longer, but I would like to ask leave to place my statement in the record,[1] Mr. Chairman, to express to those folks who are here at this very important subcommittee meeting my complete support for the concept of expanding our added-value export opportunities in this country. As a Senator from Illinois, which has always been No. 1 or 2 in agricultural exporting, we understand the importance of this subject matter and I want to assure the people at this subcommittee meeting and the Chair of my interest and the fact that the testimony of this hearing will receive my very carefull evaluation, and I thank the Chair for holding this important subcommittee hearing.

Senator BOSCHWITZ. Well, the Senator from Illinois has often expressed the thought to me of your interest in foreign exports, recognizing the importance the State of Illinois has in that general area, so has your colleague, Senator Percy, and I know that he very actively pursues this, as do you—I am not even extending apologies to the other hearings I am supposed to be at. I am just staying here; so we particularly appreciate your coming here and listening to some of the presentations and I certainly will look to you, as I know you will look to me, for mutual support in bringing about some form of resolution to our farm export value-added exports, which is an important part of our economy.

I thank you for coming. You stay as long as you can. If you can't, I recognize the veterans must also be served.

We will go on and I will preserve my questions until the final—Mr. Reed.

STATEMENT OF JOHN G. REED, JR., VICE PRESIDENT/INTERNATIONAL, ARCHER DANIELS MIDLAND CO.

Mr. REED. Thank you, Mr. Chairman, for the opportunity to be here this morning and to speak on the subject of value-added agricultural exports.

My name is Jack Reed; I am vice president/international of Archer Daniels Midland Co. in Decatur, Ill., which is one of the United States largest agricultural processors. However, I am really here on behalf of the National Soybean Processing Association, which represents the soybean processing industry. I am a member of the board of the NSPA and also of its international trade policy committee.

We brought over yesterday afternoon a 19 page paper, which was given to your staff, and in view of its length, if it is agreeable with you, Mr. Chairman, I prefer to try to summarize it rather than read it.[1]

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[1] See p. 57 for the prepared statement of Senator Dixon.

Senator **Boschwitz**. That is OK. It is 11:30, but be sure that you make all your points.

Mr. **Reed**. Yes, sir.

Senator **Boschwitz**. Be assured, too, that I will read this.

Mr. **Reed**. The written testimony which we sent over yesterday is a preliminary and somewhat shortened version of a white paper which the NSPA will soon release. By soon, I think probably within 2 weeks.

The white paper is the result of a global analysis of trade practices followed by all countries in the world in which soybean processing is a significant economic activity. The reason we undertook that global analysis is that the soybean processing industry is just winding up the second successive crop year of very depressed crushing margins and low capacity utilization. For example, during the last 3 months, we have operated at only 57 percent of rated capacity and for the entire crop year we will have operated at something under 70 percent.

Many plants are down; many employees have been laid off. In my own company, for most of the last 2 weeks, we operate 13 soybean plants and at no time have we had more than 7 running at any point in time. So it is our belief, NSPA's belief, that we have the most efficient soybean processing industry in the world; that we enjoy a number of inherent natural economic advantages which should put us in a position where, if any soybean processing industry is running, it ought to be ours.

Senator **Boschwitz**. Would you please describe your very interesting study?

Mr. **Reed**. All right.

It is intended to be, when it is in final form, a white paper, published by the NSPA addressing trade policy issues that have very severely affected our industry.

Senator **Boschwitz**. In which you have reviewed the world market country by country.

Mr. **Reed**. Yes.

Well, all of the principal—all of the countries where soybean processing is a significant economic activity.

Senator **Boschwitz**. That will be very helpful.

Mr. **Reed**. It opened our eyes. All of us that had been concerned with trade policy matters were aware of situations in specific countries, Brazil, for example, or the Community, or Spain, but we had not until recently taken a look at the whole world to try to determine what the overall impact is.

Senator **Boschwitz**. Maybe we can get some of the other producer groups to do the same.

Mr. **Reed**. It has been extremely helpful to us, and I think it would be to other groups as well.

All right.

What we found, briefly—and we used the 1980–81 crop year as our measuring yardstick—we found that 81 percent of the soybean crush in foreign countries occurs under some kind of subsidization by the host government. Another 14 percent occurs in centrally planned economies where normally political considerations outweigh free market economics. And only about 5 percent occurs in countries where so far as we could determine, the processors are operating in a free market, free-trade environment, as we do in the United States.

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[1] See p. 80 for the prepared statement of Mr. Reed.

Historically, the NSPA, along with the growers association, the American Soybean Association, as well as the U.S. Government, has been a very strong advocate of free trade policies in the soybean complex and also in other oil seeds, oil seed meals and edible fats and oil, because of our basic belief that free trade is what is in our best interest, as a country, as well as in the world's best interest, so that we don't have the kind of economic loss that Dr. Lesher referred to.

Unfortunately, it seems that our traditional advocacy of free trade has been a failure. Because the facts indicate that, outside of the United States, only 5 percent of the soybeans processed in the world are processed under free trade conditions. This has had a very dramatic, adverse effect upon our industry over the last 8 years. For example, since the 1973–74 crop year, which was the last year in which our industry ran at something close to effective capacity, the U.S. share of the world soybean crush has gone down 11 percent. The U.S. share of world soybean meal exports has gone down 39 percent. The U.S. share of world soybean oil exports has declined 40 percent. The rate of capacity utilization in the United States has declined somewhere between 12 and 14 percent.

Senator **Boschwitz**. That's all in here.

Mr. **Reed**. That's all in there, sir.

U.S. crush margins in the United States, as calculated and published weekly by the U.S. Department of Agriculture, have declined 68 percent, during the period of time in which our unit operating costs have doubled, primarily because of the rise in the cost of energy.

This loss of world market share has had a serious adverse effect on the whole U.S. economy, not just upon soybean processors. For example, based on some of the work that has been done by USDA agricultural economists, if during the last crop year, the 1980–81 crop year, we had been able to run at 85 percent of capacity rather than at 71 percent of capacity, the gross output of the United States would have $5.7 billion larger than it was. There would have been an additional 50,200 employees at work, instead of laid off. Personal income would have been $1 billion larger, and Federal tax revenues would have increased $190 million. So it is not just we processers that are hurting, it is the whole economy that is hurting.

We conclude, after having gone through this rather painful analysis, that since the primary cause of what has happened is foreign subsidies, that we must have Government assistance in order to deal with the problem. We can't as an industry—we can't effectively deal with foreign processing and export subsidies by ourselves. We have three specific short-term recommendations which we feel would give some alleviation to the problem, although certainly would not get at the core of the problem.

Our first short-term recommendation which was conveyed to Secretary Block in a letter approximately 2 weeks ago, requested he allocate $50 million or approximately $50 million of interest buy down funds from the appropriation in the budget reconciliation bill, for exports of soybean oil, particularly to countries such as India, where Brazilian soybean oil has in recent years virtually kicked us out of that market.

Senator BOSCHWITZ. Are your key recommendations made on specific pages?

Mr. REED. Yes, the three recommendations are on pages 18 and 19, last two pages.

Our second recommendation, which is a longer term one, is that Public Law 480 shipments of soybean oil be restored to their historic level of approximately 250,000 metric tons per year. During that last 10 years, that historic level has been cut by more than 50 percent, and if it had not been cut, if those shipments had been maintained at their previous level, we wouldn't be in nearly as bad a shape as we are today.

Third is that U.S. Government-sponsored credit, commercial credit, be made available in substantially increased quantities for exports of soybean meal and soybean oil. Various forms of Government-sponsored credit have been used in the past for soybean meal, but our opinion is that we need more of it.

Longer term and, from our point of view, much more important than the shorter term recommendations, we are going to ask the U.S. Government to make a major global effort to get rid of the foreign processing subsidies and exporting subsidies that have put our industry in the situation it is.

To do that really would require an enormous effort. We have had some experience in the past with 301 cases and trade policy matters that have been submitted to the GATT, so we have some appreciation of the complexity and the difficulty.

Senator BOSCHWITZ. That's fine.

Mr. REED. And the time. It requires an enormous commitment of time. But we don't see any other answer. Well, there is one other answer, which we don't like, because using subsidies is anathema to our industry. We have always been free traders and we still are. That is the way we would like the game to be played, and we would be delighted to compete with anybody in the world on that basis. But if our trade negotiators are unsuccessful in their effort to get rid of the foreign processing and exporting subsidies—then I am afraid one day we are going to have to come back and ask for subsidies ourselves if we are to survive.

Mr. Chairman——

Senator BOSCHWITZ. How long do you want to wait, is the question? How long do you want to negotiate?

Mr. REED. May I—I just concluded my prepared remarks, but may I comment on the question you asked Dr. Lesher about what to do? I think it also addressed the question you just asked me, and this is a personal opinion. I am not stating this on behalf of the trade association or my employer. My personal opinion is that the only way we are going to get our trading partners and our competitors who subsidize exports of agricultural commodities to come to the negotiating table and negotiate seriously is to make it to their own economic benefit to do so.

We have not, in my opinion, been doing that in the past. On specific trade matters that have come up, we have in effect gone to our foreign competitors and said, look, you are not following free trade; you are doing something which we consider reprehensible and harmful to us and please stop. And they don't want to stop, naturally, and sometimes these things go to GATT and very few of them are resolved satisfactorily in the GATT procedure. I have reached the conclusion, and as I say, this is personal, that the only way we are going to get them to come to the table and negotiate seriously is to subsidize our own exports to the point that our subsidized exports are hurting them more than their subsidized exports are helping them. And at that point, I think they will come to the table and maybe we can get back toward rules of the game which are basically free trade, which is what our longrun objective has always been.

Senator BOSCHWITZ. Why would they get back toward rules—let's presume you did that for the moment, and as you gathered from my remarks during the course of the morning, I wouldn't object to that. But if we are so much better in the free-trade format than all of the competitors, what would lead some of our witnesses to believe that they are going to adopt anything other than a subsidized format?

Mr. REED. I think they have gone to subsidies for reasons which are very logical, given their interests and their point of view. And I think they are going to be extremely reluctant to give up those subsidies at our request unless we do something that is going to change their perception of what their own best interest is.

Senator BOSCHWITZ. Well, a lot of the witnesses, you know, throughout these and other hearings always are rather expansive about the American farm economy, how efficient it is, and so forth. If we play in the same ballpark with all other guys, we are very satisfied, because we are going to get pretty good results. What makes us believe that they are going to back down and allow us to keep those end results?

Mr. REED. They may not. But if they don't—if we do what I have suggested and subsidize our exports, particularly exports of value-added agricultural products, to the extent that we get our processing industries running back at effective capacity, this country is going to be in much better economic shape than it is today. And if they want to leave it that way, fine. The net cost to the U.S. Treasury of subsidizing value-added agricultural exports is not very large, at least not based upon the research done by the USDA.

Senator BOSCHWITZ. Did you expand on this in your paper?

Mr. REED. Yes. There is an illustration—well, I am sorry.

In the version you have, the illustration isn't there, but we have done an analysis of that particular point——

Senator BOSCHWITZ. I would like to see that. How much is it going to cost?

Mr. REED. We will try to get that over to you this afternoon.

Senator BOSCHWITZ. Yes. Very nice.

And then—what would lead us to believe that if we all play on the same court under the same rules that we are going to dominate the soybean trade, the flour trade, whatever trade that goes through the port—all of it goes through the ports—to figure out how we can get away with that; because these other people are not going to lose their industry, I presume. We may just get into a trade war, which we would like to avoid, but maybe we have to threaten them——

Mr. **Reed**. Mr. Chairman—again this is personal opinion—I am afraid we are in a trade war and have been in it for some time, and we haven't recognized it.

Senator **Boschwitz**. Yes.

Mr. **Reed**. Now we are beginning to recognize it.

Senator **Boschwitz**. Our next witness—and we are going to take a short 3-minute break here just to stand up and stretch a little bit—Dan Shaughnessey of the Western Great Lakes Maritime Association.

Mr. Shaughnessey, before you begin, let's just stand up and stretch.

Mr. **Shaughnessey**. All right.

[Brief recess.]

Senator **Boschwitz**. We have for Mr. Coonrod a couple of questions.

I would like to comment, Mr. Coonrod, that it would be very interesting for you to do what the soybean growers have done, and that is to make some form of worldwide analysis of the trade of wheat and flour. It would be very helpful. I know if you like you can do that with the edible beans, too.

Mr. **Coonrod**. Yes, sir. I have no regrets and I do think that you are correct; it would be helpful in support of our case——

Senator **Boschwitz**. It would be helpful in developing a general policy. My friend, Chaim Foster, talked to me about it as he was doing the analysis.

Mr. **Coonrod**. Yes.

Senator **Boschwitz**. I have done business with that company for many years.

But could you provide the committee with some examples of how the European Community, subsidized wheat flour and how that has had an effect on the American exports?

Mr. **Coonrod**. The other thing that is interesting to know is that they—and you talked of this, I think, earlier—it is not by just a little bit. They subsidize to such an extent that they are outstripping us by some $100 a ton in many cases, in some of these marketplaces. So it does seem, you know, it is difficult to lose the business, but it is nonsensical to lose it by $100 a ton; so you wonder if they are even rational in some of their assessments of what they need to be competitive.

So we are seeing Bolivian markets go to the Common Market millers; we are seeing Chile go to the Common Market millers, and we suggested in our recommendation that we look at Egypt. We currently are giving Egypt through the Public Law 480 program, two-thirds wheat and about one-third flour. What that really does it allows the Egpytians then to buy the cheap flour from the Common Market. So there would be a way for us to change that—if there would be a way for us to change that product mix, we could in that sense gather some more of our markets.

But I really think that we need to make an overall study and give the specifics of where our markets really are and we don't expect to recapture an unfair advantage in the marketplace; we would just like to get our fair market recaptured, our fair share reestablished, if you will. So it isn't that we would suggest subsidies to the extent that we would take the other side; but our—if our markets have declined by 50 percent or more over the past two decades, and the European market shares have increased by a like amount—they have gone from—as I think was in—maybe it is in my remarks, within the EEC market share from 1960 to 1980 went from 20 to 60 percent of the world market, while the U.S. share declined from 52 to 19. So getting halfway back, to get some equity, would be a significant objective for us.

I meant to ask you how you think we can become competitive again in the world marketplace. You touched upon that, but perhaps you can be more specific.

Mr. Coonrod. Well, I think it is very difficult to provide a simple answer. It seems to me like the only way we can start to achieve equity and get back to fair trade, maybe not even free trade, is to use all of the vehicles that we have. I personally feel that to continue to raise our cost of production through set-aside and acreage diversion programs and drive up our unit cost of production is counterproductive in the long run. We need to provide subsidies to the producer because he is operating below the cost of production. It seems to me like we need to find other ways to do that, so that one of the real driving forces that we have put together can be the fundamental advantages that we talk about in our agricultural production and in our industries of processing. I think further we have to use subsidies; I think we have to get our international political arena in order; I think we have to lean on our trading partners around the world to quit using subsidies so that a combination of things—production management, unit cost efficiencies, transportation and port facilities, together with some improved international trade and not the least of all is an international monetary medium which will allow those who need and want our products some credit facility or financing capability that will let them at least buy what they can and want and in some way provide them, through international monetary exchanges and mediums the ability to pay for that.

So I don't think it is a single simple solution that anyone can come up with. But I do think that any name we can put on any of these points will certainly move us a little closer to a step in the right direction. Undoubtedly it will take an event in the world to really change our current situation this basic supply-demand imbalance and I am afraid none of us control that.

Senator Boschwitz. What does that mean; an event in the world?

Mr. Coonrod. I think a drought would make a significant difference, if the Southern Hemisphere had that condition next year. I think we were all very surprised at the event this year in this country that gave us even a greater local production than we anticipated. So those kinds of weather issues I think are events that we don't control but in fact will have a material influence on how this whole issue resolves over time.

Senator BOSCHWITZ. Thank you very much. We appreciate your being here to work towards the solution of this problem. Your staff people have been associated with me, so I may call on them or on you.

Mr. COONROD. Thank you, Senator.

Senator BOSCHWITZ. Mr. Shaughnessy, thank you for being patient and waiting.

STATEMENT OF DANIEL E. SHAUGHNESSY, PRESIDENT, WESTERN GREAT LAKES MARITIME ASSOCIATION, INC.

Mr. SHAUGHNESSY. Thank you, Senator.

If it is agreeable with you, I would like to highlight some of the items in my testimony and submit the full text for the record.[1]

Our membership, which includes port, terminal and shipping interests has a particular concern about the movement of agricultural export cargoes from the western Great Lakes, and frankly, the potential for increased exports of processed and value-added products, is of special interest to us.

I would like to begin with some general comments about an important area of value-added exports that I think is often overlooked, and that is the field of transportation.

The revenue and employment generating potential that exists in the transport sector from the point of acquisition of raw materials to actual delivery overseas is immense. In agricultural products alone, the export of these products in processed and value-added form can have a major impact on truck and rail use as well as in storage, warehousing and freight forwarding activities. In ocean transportation, value-added products are usually shipped in general cargo vessels, which carry a wide variety of products and which generate greater revenue.

Thus, the availability of value-added exports can serve as an attraction or a "draw" for those general cargo vessels able to carry additional export materials.

Our experience with the transportation aspects of Public Law 480 alone, which is considerable, demonstrates that export of processed grain products are a major source of revenue and employment for mills, port authorities, warehouse operators, rail and maritime transporters. Ports such as Duluth, Green Bay, and Milwaukee, for example, devote a considerable amount of their tonnage to these programs, generating payroll, extra employment, and stimulating business in general.

We have also seen how the export of Public Law 480 processed grain products has had far-reaching results in rail transportation, by stimulating competitive rates and helping railroads maintain cash flows under otherwise difficult economic circumstances. Rail movement of these commodities also results in some very interesting situations. For example, the major drawing point for the export of processed grain products under title I of Public Law 480 for the Port of Duluth, Minn. is Crete, Nebr.

Now, while the Port of Duluth and the vessels that serve Duluth are the beneficiaries in terms of employment and revenue resulting from the export of these products, there is also a direct benefit to the Crete area and the railroad interests that serve Crete and Duluth, as well as a wide range of employment and business interests within the process.

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[1] See p. 87 for the prepared statement of Mr. Shaughnessy.

With the States of Minnesota, North Dakota, Nebraska, Iowa, Illinois, and Indiana all providing over $50 million each in bulk and processed commodities for the Public Law 480 program, it is obvious that any increase in transportation requirements for the processed product portion of these exports would be particularly beneficial to those in surrounding States.

We believe that the full range of advantage in the export of value-added products to the transport industry has not yet been fully analyzed. However, if the export of value-added products under the Public Law 480 program is any guide, then there may be some very interesting precedents to examine that should be of major significance to the transport sector.

Second, Mr. Chairman, I would like to comment on the product and commodity composition within Public Law 480, to which a number of previous witnesses have also referred.

First I think it is important to keep in mind that despite Public Law 480 being a relatively minor portion of our total agricultural exports, it does have a major impact on the export of certain processed and value-added products. And with the Public Law 480 expenditures now totaling nearly $1.5 billion each year within the U.S. economy, the effects and scope of those expenditures are enormous, and with our economy in a distressed condition, it is surprising how shipments of processed or value-added commodities under Public Law 480 can provide a significant degree of assistance.

While there is considerable potential for the expanded use of processed products in Public Law 480, we must remember that the program is governed by budget and tonnage requirements. And frankly, if past experience is any guide, efforts to increase the share of value-added products in Public Law 480 will probably be viewed more by those controlling the program as a problem rather than an opportunity. Indeed, increasing the share of processed and value-added products in a program carrying a mandated minimum tonnage, which is title II, and a fixed appropriation, can be a problem. However, we believe there are ways to address that problem and assure increased and stable use of processed products.

One of the ways to do that is to assure the full and early allocation of all program resources. In both title I and in title II, each year begins and progresses far too long with a sizable amount of commodity resources assigned to an unallocated reserve. And while there is some rationale for setting aside limited amounts of commodity and program resources for emergency or other unanticipated requirements, there is no need for the large reserves that are deliberately included in both programs.

In recent years, in title II, for example, this practice has resulted in efforts to make up the minimum tonnage that is required in title II with nonprocessed products in the hopes that the actual funding required to meet that minimum tonnage would be less than the appropriated amount, thus allowing transfers of funds to the title I program.

In fiscal year 1982, over $80 million was transferred away from title II uses in this manner. And of course, title II is the program that uses a considerable amount of processed products.

Obviously, a balance has to be struck between the use of processed commodities and whole grains in our food aid program. And there continues to be a substantial need and place for whole grains in Public Law 480. However, congressional intent regarding the full use of program resources and the use of blended, fortified and processed products, particularly in title II is quite clear. A deliberate avoidance of that intent and disruption of programs for alleged budget reasons is really not the answer.

Therefore, as a means of exploring the full potential for additional uses of value-added products in Public Law 480, we believe that congressional attention to the need for full and early commodity allocations and program approvals is essential. Such attention would assure that any budget or commodity concerns could be dealt with directly and early enough in the year to determine if additional allocation of value-added products is possible.

Mr. Chairman, while I have focused only on the transport area and our experience with Public Law 480, I think that the experience, that we have noticed in the upper Midwest and Great Lakes areas, is especially relevant and probably a good guide for further examination.

In closing, I would like to reiterate our belief that increased exports of processed products is, in our view, of significant value to our economic interests, and we certainly welcome this increasing degree of congressional concern about the subject.

Thank you.

Senator BOSCHWITZ. Mr. Shaughnessy, you are located here in Washington?

Mr. SHAUGHNESSY. Yes. I represent six companies here.

Senator BOSCHWITZ. How does one reach you?

Mr. SHAUGHNESSY. Our offices are in Arlington, right near the Arlington Courthouse, and Mr. Pierson on your staff can reach me.

Senator BOSCHWITZ. Yes.

In your testimony you talk about transportation—they mostly go by liner as opposed to bulk vessels; is that what you are saying?

Mr. SHAUGHNESSY. Processed products, yes. Very rarely will processed products be shipped in bulk form, and are almost exclusively shipped on liner vessels.

Senator BOSCHWITZ. I couldn't help thinking and perhaps Mr. Posey will discuss this sometime, but one of the arguments we have had around here is the whole business of cargo preference. I believe you have a long experience with all this. Were you a member of this subcommittee?

Mr. SHAUGHNESSY. Yes, I was on the staff of Senator Humphrey.

Senator BOSCHWITZ. Who was also the chairman of this subcommittee. It is kind of a Minnesota tradition.

Mr. SHAUGHNESSY. That's correct.

Senator BOSCHWITZ. But we, you know, our interest is very similar. But there is a good deal of lost exports due to cargo preference. Do you get involved in that?

Mr. Shaughnessy. Yes, I do.

I believe that within Public Law 480, the potential for increased use of these value-added and processed products is considerable and can be expolited.

When you then move to the subject of freight costs, you will find an increasing amount of money that is spent from the Public Law 480 budget to subsidize the U.S. Merchant Marine under the cargo preference laws.

Whether or not one takes the point of view that there should be that subsidy, I feel very strongly that it should not come out of the food budget.

Senator BOSCHWITZ. But it does.

Mr. SHAUGHNESSY. Indeed it does, yes.

Senator BOSCHWITZ. I don't think that a realistic answer is to say we will increase the budget by that amount, by $75, $80, or $100 million. We should come to a conclusion on that; that would be very helpful. It doesn't really apply to liner types of cargoes.

Mr. SHAUGHNESSY. You have to keep in mind that liner vessels that operate in conferences all charge the same rate. However, it is often the American member of a conference that will determine the conference rate, and if the American member determines that he needs a higher rate, then the rate of that conference is higher than it would be if there were only foreign members. So even in liner shipments, there is a cost element that is attributable to the presence of the American carriers.

I think it is also important to keep in mind that there are a number of American liner operators that are efficient, that have modern equipment and provide a good service to this program. I think the major cost that occurs is in the use of overage, outdated vessels, particularly in title I; and that is a detraction from the commodity budget.

Senator BOSCHWITZ. It really is.

We thank you for your testimony, Mr. Shaughnessy. Mr. Hoese, do you have anything else that you want to add or say? We thank you for being here today. I notice that you are located fairly close to where I live. Is that west of Highway 100?

Mr. HOESE. Just east.

Senator BOSCHWITZ. And we thank you very much, for coming, Mr. Reed, and look forward to that study that you are doing.

Mr. REED. We will get that study over to you.

Senator BOSCHWITZ. Thank you.

Do you have anything else you want to add?

Mr. REED. Not at this point, sir, no.

Senator BOSCHWITZ. Thank you very much. We want to go on to our farm commodity organization panel, Varel Bailey, the vice president for legislative affairs, National Corn Growers; Glenn Tussey, the assistant director for national affairs of the Farm Bureau; and Marv Johnson, president, House of Raeford.

I think we will proceed in the order that we have you here. Mr. Bailey of the National Corn Growers.

STATEMENT OF VAREL BAILEY, VICE PRESIDENT FOR LEGISLATIVE AFFAIRS, AMERICAN CORN GROWERS ASSOCIATION

Mr. BAILEY. Well, thank you very much. I appreciate the opportunity, and I am Varel Bailey, vice president, legislation, of the National Corn Growers, and appearing with me is Michael Hall, our Washington representative.

Senator BOSCHWITZ. Where is Anita?

Mr. BAILEY. Anita is in southwest Iowa, halfway between Omaha and Des Moines on Interstate 80.

Whizzing by on I-80, why you just came real close.

I may not hit every word in this prepared statement. Viewing the course of action this morning, I understand that the problem has pretty well been outlined, and so I will try and outline it in further breadth or depth, simply saying that we as corngrowers support an increase in market development, both bulk commodities and processed commodities. Just a brief outline: the price of corn in Iowa now is below $2, futures on the Chicago Board in the $2.20 range; there is no question that we as corn producers need assistance in production controls as well as real emphasis in market development process in bulk commodities in order to attempt to even approach to use all of the mountain of corn that we have produced out there.

We are extremely efficient; I think without question, the world's most efficient corn producers, and there is a table on page 3 there that gives you a little outline of what has happened in the corn industry between 1970 and 1982. You can see that the production has gone up about 95 percent using only an increase of 30 percent in the land-based, and you can see there that we are talking an almost 2½-percent-a-year gain in yields, so the ability to produce is really out there.

Looking on the bottom half of that chart, domestic use has gone up about 16 percent, exports 262 percent, and our excess stocks is almost 100 percent greater. So this gives us some parameters of what we are working with.

So it comes down to this: No. 1, when we go out and work around the world to sell our products, the old rule still applies in the local grocery store; you have got to sell what the customer wants, and the laws of economics work within what—where the trade barriers are. So basically it comes down like this: We think that we should produce those processed products in those areas where they fit the economic condition. Let's take an example where we have a country that can use all of the end products coming from corn. Let's say that they are a wet miller and they can use alcohol, fructose, gluten feeds, the whole thing.

When you come down to the analysis of the economics of the thing, it probably is more efficient to ship the bulk commodity. We are just talking about transportation costs and relative efficiency. Even though we would like, we would really like to process it right here in this country and ship the individual parts, this is just a little—as near as I can tell, a lesson in economics—but if we have three or four different countries, one needs the sweetener, or one needs the alcohol, one needs the gluten feeds, and so forth. Then the economic advantage turns around and we really have the advantage of value-added here, of doing the processing here, and shipping the individual products that way.

Senator BOSCHWITZ. Pardon me just a minute. I don't want to miss any, and I want to say something.

Your testimony reminds me that I have a gap in my knowledge about the end product of corn. See, you are a farm boy and I am not, you have to tell me about all those things so I can relate them better in my mind.

Mr. BAILEY. I appreciate this, and please stop me if I go too fast. I would just like to make an observation within that framework, though, and that is that when you look around the world, basically the trade barriers are to protect domestic food processing industries.

Senator BOSCHWITZ. Of those two facets or are they both?

Mr. BAILEY. Well, both, but generally the barrier is higher on the process than it is the rock bottom. This is a generalization; there are instances on both sides. And I make this point in the framework of the job we have got ahead of us in that we really do need the emphasis, increased emphasis, on the processed goods, but let us not let up any pressure at all in the bulk commodity either. So we are coming down here that—let's split the world, in between the Third World and the developed countries. And let's say that—and here is a point I guess I disagree with, with a little bit of the preliminary study that the USDA is working on right now, and reading through that study, it would appear that it is an either-or equation there; that either those countries can spend x amount of dollars on processed goods, or they can spend it on raw goods and then if the teeter-totter of the economic situation, the rollover in this country applied.

I really question that maybe that is an oversimplification of the real world out there, and my point here of bringing the situation down in the Third World, we may be faced with a market development program where we ship in the raw products and allow those countries to do the processing and this type of thing because, let's face it, market development hinges only on the ability of those countries to generate cash in some way to pay for it; whereas, in the developed countries where the high trade barriers are on processed goods, our emphasis probably needs to be on the trade barriers. So this is the two-edged sword that we have got here, and it is hard for me as a corn producer to come out and come strong in either one area because we really need both.

Coming down—I think—I was really intrigued by your questioning of Mr. Lesher, and would just like to say that I as a farmer coming to Washington really have a problem, a couple of them, and first of all, I like to reduce things down to simplest terms. And it appears that this country has a choice. Now, either we can use our agriculture in this country, and use it to its fullest advantage, and it has a real economic advantage in the world today, or we can start to shut it down, just like we have started to shut down our steel industry and our auto industry, and all those other things. Now, we have got to make a choice here. And part of my problem is that I am coming in and asking for some help on production controls in agriculture; at the same time, I know that that is a step backward as far as real economic strength in this country. And I agreed with this gentleman that the next war will probably be fought in economic terms, with dollars instead of bullets, and so we really need to concentrate where we are economically strong; and I think agriculture is it. And I really hate to see us back away.

So if we are going to capitalize on the real strength of agriculture, then the thing that we need is access to markets. We are the most efficient; if we can get access to those markets, we will win; the problem being, when I come into town, the first place I have to go is to OMB to see how big the pie is; then I go to USDA to see how it is going to be divided; then I go to Commerce and SDR to see how effective my advance team around the world is going to be; then I go to the State Department to see how many vetoes there are and then I check with the President to see if he is going to veto.

So as an agriculture producer, when I am talking about access to market, the decision centers in this place really boggle our minds.

So coming down to what can we do in the underdeveloped countries. Rather than use an approach of giving them the money, giving them the grain, maybe we really do need to start at the—where the grain comes off the ship, or whatever we are putting in, and we need to help that country with technology and with funding and we are talking about funding resolving export fund and some intermediate credits, and so forth. Maybe we need to follow that product until it goes to the hills in that country and the people do what they have to do; they generate the cash and they bring the cash back out into the world market. In other words, do a whole market development program instead of what we have done of 1 year-at-a-time programs in market development, and a cost-benefit ratio that makes us pick and choose in many instances of where we can go in the world. Maybe we really need to take a hard look at how we are handling outmarket development work and really, you know, I want to say that the priorities that Congress is giving to market development is super, and we have just got to do more of, again, if we are going to maintain access to these markets.

In the developed countries, this is the one that is real tough, because when it comes down to the bottom line, we are talking treasury to treasury, the will of the people when it comes down to these trade barriers, where you can talk about sugar and fructose and all of those things that are happening right now, and the war is on. The fact that we are having problems in the Caribbean Basin is because the EEC is dumping sugar and it is gutting the ability of those countries to have cash to buy things in the world today, and they are coming to us crying for aid. Why? Because the EEC is exporting their social and economic problems around the world.

Now, the comment earlier here was that well we have got to negotiate and have fair trade and so forth. Well, the point of it is that they have embarked on a program and the only way that we will get them to negotiations is to find out where they are soft, find out where the few million bucks that we have got can effectively counter the billions of dollars that they are dumping into this program.

Now, I may be torn up when I go back home because this Government may find that we are going to subsidize only a certain quality of wheat to really bring them to their knees, or something of that type, and bear in mind I am wearing a corn button today and so I will get torn up, but I think my fellow neighbors up and down the road understand the concept that when you are in this economic war you spend your bucks where you get the most balance. And so it is this type of thing that I think we have got to do in the EEC in order to gain, a parity, to gain an economic advantage.

Flip over to Japan. I am really concerned that we are making a frontal attack on these barriers of beef going—I have a cow herd, produce beef. I am concerned because they have got so many other areas they can work in, maybe we need to end run in Japan; maybe we need to work with the industry people and work to increase the total beef in the diet. There is a real limit to how much beef they can produce in Japan, and if you can make that total diet increase, we will get our share, don't worry. But to frontal assault those guys on those things really could be counterproductive. So I think we have got to be real selective here.

Switch to the controlled economies. Where are we there? Well, this is a tough one for me because right away you are going to talk pipeline to me, and you are going to talk foreign policy and all of those things. I simply make the statement that I made earlier and I try to draw the analogy that I wonder if we had had Pearl Harbor if we had been feeding the Japanese in the 1930's the way we are feeding people around the world today. And then I try to draw that over to some of the other controlled economies. And I really wonder if the full recognition of the power of agriculture and food has come into play in a positive manner in foreign policy, in military strength.

So these are some of my answers; they are not on that written page, but they were brought out as I followed the discussion. I simply want to wrap up by saying that we support 15 percent and growing, of the products of corn now going to industrial uses as advance process; I am a red meat man, produce enough red meat for 1,500 Americans on my own farm, and so I want those to be provided to increase the diet around the world.

So give me a chance at those markets, and we in agriculture will do our job.

Thank you.

Senator **Boschwitz**. Before we go on to the next witness, let me make a couple of comments, if I may.

We have before us some sugar legislation.

Mr. **Bailey**. That's right.

Senator **Boschwitz**. You are familiar with that.

Mr. **Bailey**. Yes, I am.

Senator **Boschwitz**. And I would hope that your organization would become involved in that and to prevent a reduction of the sugar loan support program, which has not cost the Government anything. This would certainly have an effect upon corn prices.

Mr. **Bailey**. Well, yes, we have joined the 301 with the sugar producers; we are working on the Hill here to oppose the—any change in the sugar quotas and everything but it goes further than that, and that is that the EEC now has come out with a countersuit "again us" because of our quotas, and our Government all of a sudden agrees to go to the negotiating table when in repeated instances when we have wanted to go to negotiate on——

Senator BOSCHWITZ. I am not aware that they have come with a countersuit against the Senate, at the GATT——

Mr. BAILEY. Consultations, I guess.

But the point is that we in many instances agree to negotiate from a point of weakness instead of from a point of strength.

Senator BOSCHWITZ. Let me be more direct in my question by telling you that one of the sponsors of the sugar legislation comes from one of the largest corn producing States. Now, I would hope that you all would make your feelings known to the various Senators because, very frankly, the so-called Farm Coalition around here is in tatters. My background is not in farming and I don't say that I am by many years an expert in it. But I find the various farm organizations going in their own set of directions with their own set of priorities, which is all very nice when they had 30 to 35 percent of the population, but not when it is 3½ to 4 percent of the population. So I hope the corngrowers will be very active in support of the sugar producers, which is a relatively narrow product and I hope that you will take back to your organization and your other organization the fact that the farmers are going to work together a little bit, and go in more than one direction.

Mr. BAILEY. We appreciate that.

Mr. HALL. Could I comment on that, about the sugar situation? Corngrowers have been in direct contact with Senator Quayle and his staff, and even this morning we were talking with Senator Jepsen about the issue of quotas, the attempt to lower the support, and what the basic problem is. Again, you see sugar subsidy and Senator Jepsen will be talking to Senator Quayle again, and we have contacted each Member of the Senate about this issue in terms of total impact on the fructose industry in this country, Senator.

Senator BOSCHWITZ. And on the sugar price, interestingly, because if we drive our sugar producers out of production, then the international market on sugar is a relatively restricted one, and we have to go out and buy another 1 million or 2 million tons, prices are going to go way up.

Mr. HALL. That was one of the basic causes the corngrowers elected to join in the Great Western Sugar 301 complaint. The administration had dug its heels on it, and set it aside and there is a domestic dimension to it, and there is a foreign trade dimension to it, and that is the reason the corngrowers would like to have more priority of attention to this Great Western 301 complaint than what we have had.

Senator BOSCHWITZ. Give him a copy of our sugar report.

We thank you.

We will now go on to Mr. Tussey, of the American Farm Bureau Federation. My comments, you know, to the Farm Bureau are really that too, that you have to get the various farm organizations to work together. We are all fractured this way. National Farmers Union, they are all terrific folks, all come out and vote stuff; and I am cognizant of that. But, man alive, when they go in different directions, there is almost a self-destructive will involved.

Mr. TUSSEY. Mr. Chairman, I appreciate the problem that some of these matters cause, and I think that for many things such as the matters under discussion here today, we are all in pretty close agreement. I also want to thank you for the opportunity to appear and speak for our members.

As has been pointed out here today, international trading patterns do shift and have shifted and when that——

Senator BOSCHWITZ. Let me interrupt and tell you that if there is a farm coalition to be had in the Senate—your organization really should take a lead because you do have membership in States that would have different types of products than they do up in our neck of the woods. So that, you know, I find myself voting for tobacco sometimes. Well, I want to tell you that I do that at some political risk. But tobacco folks don't vote for corn, or they don't vote for sugar, and your organization transcends some of these State lines. I really tell you that your obligation, if I may state it as such, is a great one because of the size and scope and influence of your organization.

STATEMENT OF W. GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION

Mr. TUSSEY. Well, thank you, and thanks for the compliment and also I shall convey your remarks back to our leadership and I hope that on many issues that we can be in close accord with other groups all of whom have the interest of improving farm income.

I will go ahead then with the comments regarding the value-added or high-value products.[1]

I would like to first say that my remarks do not mean that we are willing to accept any lessening of emphasis on the basic commodities, because from time to time when we make a statement that we are pushing for increased exports of high-value products, someone thinks that we may be willing to settle for something less regarding the basic commodities which have been the centerpiece of our agricultural exports for so many years, as has been pointed out here today. And we like the term that was used here this morning by Mr. Lesher and others in the study which was directed at high-value products, which connotes a broader definition and a broader range of products than simply high value, which some people construe as meaning only processed products.

It is important to export meats and other high-value products and consumer-ready goods also.

So within this context, Mr. Chairman, I would like to draw attention to some of the major factors which have emerged from recent research studies, which indicate the absolute necessity for the United States to include stimulation of high-value exports in its trade policy and market development strategy.

The high-value market is really where the money is. As was pointed out here this morning, that is where market growth has been taking place and the prospects for future growth are excellent for these high-value products. I will not go into this study that the USDA so adequately covered here this morning except to say that

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[1] See p. 91 for the prepared statement of Mr. Tussey.

that study points out that world trade in agricultural products has undergone marked changes in composition since World War II, but the United States has not shared in that growth as it should have; and that growth prospects are excellent for the high-value products in the future and we are talking in terms of market growth of $10 to $15 billion each year during this decade.

And as was pointed out by Mr. Lesher this morning as more people become affluent the world around and upgrade their diets, then we have more opportunities for high-value product exports, unless somebody cheats us out of them with export subsidies and that sort of detriment or restrictions on trade.

I would like to also add that the increased sales of these products in export markets will stimulate the domestic economy; it will stimulate activity in farming and processing and manufacturing and transportation and other export-oriented phases of our economy, as has been pointed out. But I would like to also mention some of the problems that we have come up against and this has been alluded to but maybe I will put it in a slightly different perspective.

The use of export subsidies by competing countries, such as the European Community, and Brazil, are killing us in export markets. For example, wheat, flour, and poultry markets have been captured in those instances through the use of export subsidies. Sometimes poultry markets have been captured from us by the European Community and then along comes Brazil, who obviously outsubsidized the EEC and take them from the European Community.

Countries that use export subsidies to capture market in this manner are really exporting their unemployment and their other problems. This has become a new form of beggar thy neighbor policy.

Another problem is the restrictions on market access by Japan. If Japan grows it or processes it they make an effort to restrict it. Japan has 27 import quotas accompanied by relatively high-duty rates on products entering into their country. Of these 27 quotas, 22 relate to agricultural commodities. Many of these 22 relate to products which have some form of higher value added to them by processing done in the Japanese economy. Now, we in the private sector—and we serve on various advisory committees, as do other people who have appeared here this morning—but we in the private sector, while we congratulate Ambassador Brock and his people for the work that they have done, we ask them to redouble their efforts to eliminate the trade problems such as those which exist between the United States, Japan, and the European Community. No amount of promotion—we can talk about promotion until doomsday, and we can put a lot of resources into it—but no amount of promotion can overcome the effects of the EEC subsidies or the Japanese trade restrictions.

This year, the American Farm Bureau Federation sent delegations at our own expense to the European Community and to Japan. This was done to give support to Ambassador Brock and trade negotiators who frequently, when they meet with their counterparts around the negotiating table, hear that there is no concern in America for the things that they are doing; and they will cite that they have sent delegations to the United States, such as the one that was recenty here from Japan, and they will say but the farmers—they thanked us for the $7 billion worth of agricultural commodities that we bought from you last year; we will thank the Europeans for the $9 billion that they bought. But we forget and we are too polite, our farmers are too polite when these delegations visit them to speak out and say, wait a minute, how about the restrictions that you have on processed products, or what about the restrictions on products that you produce in your own country? And Japan is an example like that. They are too polite when thanking the Europeans for the $9 billion worth of commodities sold there. They are too polite to say, but how about those export subsidies that you are using to steal markets away from us around the Mediterranean, in the Mideast and now in Latin America and other places.

Well, the Farm Bureau feels that we can no longer be quiet and be as courteous as we have been with these groups, and permit the erosion of U.S. exports because of these trade restrictions and because of unfair trading practices.

The Government simply has to do something to resolve these trade barriers and also these subsidy problems. This is why the president of the Farm Bureau, Bob Delano, recently called for greater efforts by the administration to use all tools and authorities available to overcome unfair trading practices, even to the extent that we are willing to see the use of export subsidies by the United States to regain markets that have been unfairly taken from us by the Euoprean Community and others who subsidize their exports in competition with American farmers.

As one of the company representatives said here this morning, well, American farmers and ranchers are efficient; we are willing to compete with other farmers the world around in open and free markets, but we cannot compete against the treasuries of other countries. Therefore, we feel that it may be necessary for our Government to combat these unfair trading practices with interest buy downs or other subsidies in order to compete with the products being offered in world markets by the European Community, by Brazil and certain others.

It is just unfair to ask our farmers to compete against those kinds of odds; there is no way that we can do it; there is no way that we can hold on to some of the markets that we have enjoyed as traditional markets, with the undercutting that is being done by the European Community.

And in this regard, we appreciate the efforts of the Agriculture Committee to make $175 million to $190 million available for such purposes; we believe that the only way that the administration will get the attention of the European Community—and we think it is not too long before Bill Brock will come to that same conclusion—the only way we will get their attention is to challenge them seriously in world markets in the same manner that they have taken those markets from us. Perhaps if such a serious challenge were mounted, the EEC would be willing to negotiate some sanity into international trading of agricultural commodities.

It is especially galling to American farmers to find the Europeans making extensive use of subsidies such as they are. I think that our farmers could understand pretty well when Europeans, who suffered hunger during World War II, felt that they wanted to attain a certain amount of self-sufficiency in food. But now they have gone far beyond this stage; they have reached self-sufficiency in a number of commodities; now they are reaching out and, in essence, stealing markets from us with subsidies of theirs.

We have also asked the administration to use all tools available for stimulation of exports, such as the funding of the CCC revolving fund, the use of Export-Import Bank credits for agricultural exports, which could be done administratively, and the use of barter transactions where appropriate and the use of the subsidy standby provisions of last year's farm bill.

The CCC Charter Act gives the administration authorities in addition to these. So there are a number of authorities and a number of means available to the administration. And I might point out that many of these tools have been used by previous administrations. And we believe that with the farm income situation such as it is, that it is necessary for the administration to take a good look at all the authorities and all of the tools available to them in order to help farmers regain markets, to prevent the erosion of markets, and to do something to improve farm income, which is abysmally low.

The Farm Bureau also supports sanctity of contract legislation, and, Mr. Chairman, you mentioned this this morning, that there would probably be further efforts in this area. We supported Senator Lugar's bill; we support the work that others are doing in this area; we believe that such legislation would improve the image of the United States as a reliable supplier; this is one of the few things which could be done without the expenditure of funds.

Recently, someone in the administration asked me what they could do to improve exports, and I said, well, it is very difficult for me to think of anything that doesn't cost money or erodes Presidential prerogatives. Here is one thing that doesn't cost any money, but I suppose it erodes Presidential prerogatives to a certain extent.

Well, Mr. Chairman, again we appreciate the opportunity to appear here and we urge the committee to continue its efforts to provide the administration with export stimulation tools and further to give them a nudge to make use of the authorities already provided for Congress to stimulate exports, including the exports of high-value products.

Thank you very much, sir.

Senator BOSCHWITZ. Thank you, Mr. Tussey.

We are singing the same song. I suggest to your group that you put on a full court press on the sugar legislation that we have before us. Some of the Senators who come from States don't understand that program; they come from farm States and they don't understand the program; they think that they are just against subsidies and conservatives. But we have got to put those guys into shape because if we lose that program it is just a further erosion. We are doing it then to ourselves as well as letting the other guys across the water there do it to us, and we can also give you a copy of the letter that we wrote. I want to be sure to take it along with me to the policy lunch. I may speak about that.

Mr. **Tussey**. Well, Mr. Chairman, we are in accord on the sugar——

Senator **Boschwitz**. Yes, but let the other guys know it.

Mr. **Tussey**. And we have some people within the Farm Bureau who are very interested in that, and we are making an effort to follow through.

Senator **Boschwitz**. Mr. Johnson, you have been very patient. I see you are from North Carolina and all those slurs I made against turkeys down there are withdrawn. You undoubtedly know my very good friend, Earl Olson, from not far away.

Mr. **Johnson**. He is a good friend of mine.

Senator **Boschwitz**. He points out that low feed prices benefit him on the short term. But then he says, that the farmers go out and they decide maybe they should add a few turkeys or a few hogs, or a few cattle, or something like that, because those low corn prices—with the result that turkey prices go down.

Mr. **Johnson**. That's right.

Senator **Boschwitz**. There is a great unanimity of interest among farmers, and they sometimes don't recognize it. I must tell you I took a very strong stand against the pork producers, for instance, when they objected to your using the term turkey ham. You ought to settle that and not argue amongst one another, because it just is so destructive, and the people around here think, the Senator thinks, look at that; look at the farmers argue with one another. They can't get their own act in order, so we are just going to vote where it costs us less money.

Mr. **Johnson**. I think that was kind of a silly fight myself.

Senator **Boschwitz**. Yes.

Mr. **Johnson**. I think we might sell some grits down in North Carolina. [Laughter.]

STATEMENT OF E. MARVIN JOHNSON, PRESIDENT, HOUSE OF RAEFORD FARMS, INC., RAEFORD, N.C.

Mr. **Johnson**. Mr. Chairman, I am Marvin Johnson, and I am president and part owner of the House of Raeford, which is located in Raeford, N.C. The House of Raeford is a turkey processing operation. We process turkey products. My father, my brother, and I began in the turkey business in 1945 growing turkeys in Rose Hill, N.C. We are still growing turkeys and chickens. We also have our own hatchery, feed mill, grain elevators, and breeder research facilities and rendering plant.

The House of Raeford began exporting raw turkey products to Germany approximately 15 years ago. We now have quotas of substantial quantities to Germany annually and have a mutually profitable relationship with our customers there.

Today, we produce approximately 3 million pounds of turkey per week. In 1980, I had the opportunity to visit Europe with the North Carolina Commissioner of Agriculture, Jim Graham, and while in England, I came in contact with a company which has bought a great deal of processed turkey from us since.

It is a pleasure to appear before you today to discuss the extreme importance of export of value-added turkey products. Having served on the North Carolina board, I believe I have a good understanding of the value of exports. Being the past president of the North Carolina Poultry Federation and North Carolina Turkey Federation, and the National Turkey Federation, I realize and appreciate the importance of exporting turkey products. We have several turkey processing plants in North Carolina and perhaps you are aware that North Carolina is the No. 1 turkey producing State in the country, having produced 26 million birds in 1981. That's a fact.

It is true that grain, soybeans and corn——

Senator BOSCHWITZ. How many of those 26 million turkeys did you grow at the House of Raeford?

Mr. JOHNSON. We grew about 6 million.

Senator BOSCHWITZ. You are a big factory.

Mr. JOHNSON. Well, talking to the grain farmers, we use 100,000 bushels—we grind and feed 100,000 bushels of corn every week. So when corn went from $3 to $2, that means that is $100,000 less that I put in turkeys every week. We use 1,000 tons of soybean meal. We don't sell any feed. It is all fed to our own poultry. It is hard to believe that you have got enough of those peckers out there to peck up 4,500 tons of feed a week.

Now, every time we export one turkey, 25-pound turkey, we send 75 pounds of either corn or soybean meal to some places, and in the last 12 months we have sent—I haven't got the figures here, because we send a little bit in excess of 8 million pounds of turkey to Germany. Most of it is turkey parts. We send very little whole birds. In England it is all cooked product.

Senator BOSCHWITZ. Cooked?

Mr. JOHNSON. Cooked.

Now, we have a lot of problems with—I have got a guy on the way over there now, a vet from England. And he will walk through your plant, and do it every year, just before you get ready to ship for Thanksgiving. They come in and they walk through your plant and they try to find any little something to hold you up for 3 or 4 weeks or a month. Then you have missed the Christmas market, and they don't care what you send after Christmas, because it don't matter too much. He is on his way now. We expect him at any time.

He finds little things like—he says that we put our waters in our chillers; we have to chill the birds around 40 degrees or so many minutes time extra in a kiln. We put water in one end; he says we have got to have counter-flow when you have to put water in this end to chill. It is a lot of silly stuff.

You go in our processing plant and our walls are so many meters high, and all the way around are white, and even though we had a good—and that's one of the rules. You can't use wooden floor in the coops. It has to be all plastic. You can't have wooden pallets in your freezer. Anything they can find. And I think—sometime I think our USDA officials over here agree with them, because they—if it was—if I was a USDA official, I would do what is said USDA; he would have a time getting in here; I would hold him off for a week or two until the Christmas season was over. [Laughter.]

Because I have been in the processing plants all over Europe, and there's enough feathers left on their turkeys when they get through, if they would turn them loose they would fly home. [Laughter.]

A few years ago—I mean, Germany is not as bad as England.

A few years ago, they sent a vet over here, and he condemned——

Senator BOSCHWITZ. They sent what?

Mr. JOHNSON. A vet, a veterinarian.

He said he was. I guess he was.

They sent him over here from England. So I met up with Charlie Rose; he was in our district, and—so I went out to Charlie Rose's office, and we decided we were going to send somebody from his office over there to see what their plants looked like. I told them—they said they didn't have the money; I said I will pay whoever represents, his way. But anyway, England just said, nope, and we backed up, not letting anybody in their plants. They were ashamed of what they had, really, because it hadn't been 6 months since I had been in some of them.

But that is what we have to fight with. And I think that you people here on the Hill don't really understand all the little silly regulations and things that they do to stop us. They make it just as hard as they can, and I—we ship most—of our further processed goes to England to Germany. We ship—we just sent 287,000 pounds of turkey tails to Togo down in Africa. Of course, it is a cheap product, but—I think 17 cents a pound dockside, but it is—and we have got a container of gizzards in Japan. We did that through a broker, but the rest of them, we did direct.

Senator BOSCHWITZ. Let me tell you that maybe we should talk with—you, Earl and I, Jesse, whoever——

Mr. JOHNSON. Sure.

Senator BOSCHWITZ. I am fascinated by the idea of perhaps these fellows could somehow be kept out.

Mr. JOHNSON. I think they can be kept out. If I was running the Department, they would stay out. You know, I would stall them for a few—stall them for 4 weeks and you have got them whipped. [Laughter.]

Get sick. They can stall me when I want something.

But I know Earl Olson, Pete Peterson and the whole crowd up there real good, and I think they will come to Washington.

Senator BOSCHWITZ. Fine.

Mr. JOHNSON. But when you put your products of live turkey against a process that buys much more—our family employs approximately 3,000 people; therefore, we are providing good wages, income and also additional tax base. If it were not for the nature and consumer demand of our business, we could not employ this number of people.

The demand for our product is being created partially because turkey is economical to buy and serve and also because of the nutritional value of turkey products, such as high protein, less fat, fewer calories, and less cholesterol. The nutritional value of the food we eat is becoming more and more important to the American farm people. I also think there is support for both and we are able to aid our allied industry by purchasing more boxes, vehicles and transportation, gasoline, contractors, and so forth. We cook 600,000 pounds of product a week, 600,000 pounds of turkey a week. We use 130,000 gallons of No. 6 crude oil a month in the rendering plant.

Our volume of business in Europe has been great and I am greatly concerned about restrictions and subsidies of the European Economic Community. They have cut into our markets.

I feel if they are going to set up invisible trade barriers for food and agriculture products that we are best at producing that we should also set up trade barriers for items that foreign countries produce the best, and every country has got something that they produce best. If it is Africa, it is probably diamonds.

Senator BOSCHWITZ. If they don't buy the turkeys from you, where do the English get them?

Mr. JOHNSON. The English—France is growing, and England, they have got a pretty big turkey growing in England. They just change the gate duty about whenever they like; and they will find something wrong to hold us up, just like I am telling you.

Senator BOSCHWITZ. Then where do they get the turkeys?

Mr. JOHNSON. They get their turkeys from—they have got some turkeys from France and some turkeys grown in England. But the turkeys in England cost them a lot more to produce than it does our turkeys—we are really prepared—all we need is a chance.

The export and the value-added food products are extremely important to our country and we need all the help we can get.

Raeford is in the business here in the United States and can raise turkeys more efficiently and process them to higher standards than any of our foreign competitors, but processors are off, slipping from the foreign markets. The standards for international trade ought to be based on end results whether the product is clean and wholesome, not whether the fresh water goes to the front or back end of the chill or how much water is used in the chill.

The House of Raeford has spent hundreds of thousands of dollars to comply with these standards in order to stay in the European market.

Recently, the British tried to exclude poultry from any country which vaccines for Newcastle disease. That is something else that is silly. EEC requirement is based on processing technique and drug use for trade barriers. Unless they will make products clean and more wholesome, these restrictions should be struck down. Agricultural production in the EEC is highly subsidized by both the livestock producers in the United States and their government support programs. The EEC producer receives 70 percent, these producers are protected by gate prices which equalize the price for an efficient U.S. producer.

Finally, the European Community subsidizes inefficient producers to export their poultry to the Middle East and other areas at lower prices than an efficient U.S. company such as ours. The U.S. Government has only two choices: Either cause the Europeans to eliminate these overlapping subsidies or provide capital of subsidies to allow U.S. growers to compete abroad. Now, I am not for government subsidies unless I feel like there ought to be some other way to do it. Really, I feel like that maybe we tax what they bring in and, we can take it and subsidize what is going out, you know. If there is any way around that, I would rather be around it. I don't want more government; I want less.

Today, there is only one way—that is only way to challenge the technical barriers in export subsidies, and that is to have the U.S. Trade Representative to take each issue as a complaint to the General Agreement on Tariffs and Trade, GATT in Geneva. GATT provides the process and negotiation and senses it is difficult for the United States to negotiate with strength when we are but 1 nation and the EEC is 10.

In 1979, in the Tokyo round of GATT negotiations produced an agreement on technical barriers to trading which appears to bar the kind of design standards which the EEC countries apply to U.S. poultry plants. But the members of the EEC take the position that this agreement has nothing to do with trading in poultry meat. If GATT would only act against export subsidies that result in a country obtaining an equitable share of the world export trade, by the time the lawyers figure out what is inevitable, we won't have anything left worth trading. If we are going to have the world trade system based on mutual trust and conciliation, then the United States cannot be the only nation that trusts conciliates. If our trade partners and allies continue to exclude our efficiency to produce value-added agricultural products, then the United States must answer them in kind. Multilateral fee trade is a fancy title but it has to be more than a free ride for others at the U.S. expense.

If other nations will not play by our rules, then it is time to play by their rules, and apply their kind of restrictions to their exports, and match their subsidy market for market and dollar for dollar. When our trading partners understand that the U.S. Government and U.S. citizens and U.S. industry have joined together to make world trade work and that we are going to play with the same rules that they have developed, then those other nations will be ready to agree to rules that we can live with.

Thank you.

Senator Boschwitz. I like a man who doesn't beat around the bush and I agree with your testimony. I think we have had a good hearing. I must tell you I am just plain out of time. I am half an hour late for a luncheon with the other Republican Senators. I will try to bring this message to them. Sometimes they think that you guys are pampered, and I don't share their conclusion, as you have heard me state this morning.

I very much believe that witness after witness has said, free trade, but, listen, I'm not--against giving the store away, because the other guys are going to take advantage of us and clearly that is what is happening. Clearly that is a situation that we have to bring to an end, but we have got to work as a team, and if we do that, I think we can indeed achieve the ends that we are working for.

The hearing is adjourned.

[Whereupon, at 1:01 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

[News Release—Sept. 21, 1982]

BOSCHWITZ CHAIRS ADDED-VALUE EXPORT HEARING

WASHINGTON.—Senator Rudy Boschwitz (R-Minnesota) today chairs a hearing on Added-Value Exports.

Enclosed are testimony by Senator Boschwitz, and a report written by the House Republican Research Committee. "The report from the HRRC is the best I've seen on added-value exports," Boschwitz said.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

In recent months the issue of how to increase our country's exportation of processed agricultural products has received much attention. Everyone agrees that these exports are good for the economy. Some of the witnesses will address this point.

This hearing will also examine the barriers which limit these sales. I look forward to hearing how the private sector as well as the U.S. Government can help promote and facilitate processed product exports.

I have cosponsored a resolution offered by Senators Percy and Burdick which makes some suggestions for expanding value-added exports. This may be a useful step toward a more comprehensive export policy.

[Report From the House Republican Research Committee—Task Force on Agriculture—May 3, 1982]

ADDED-VALUE EXPORTS: A POTENTIAL BOOST TO A SAGGING FARM ECONOMY

The value of United States agricultural exports has increased sixfold over the past decade. This tremendous increase has helped to offset the country's balance of payments deficit and has increased personal income and revenue. However, even greater economic gains can be made by exporting more agricultural products in processed form. Increasing added value[1] exports will benefit farmers—by expanding the demand for raw commodities; processors—by creating a larger export market for their products; and labor—by increasing the number of jobs available in this country. This paper outlines the economic benefits of increasing added-value exports as well as the actions needed to accomplish this increase—the reduction of trade barriers and the development of new export markets.

ECONOMIC BENEFITS

A 1981 Department of Agriculture (USDA) study conducted by the Economic Research Service (ERS) investigated the economic effects of increasing exports of selected added-value agricultural products in terms of gross output, gross employment and personal income. The products studied were: wheat flour, corn dressed poultry, wet corn milling products, soybean oil products and cottonseed mill products. The following examples illustrate the potential eonomic benefits which could have been gained in 1980 by exporting a larger percentage of agricultural products in processed form:

In 1980, the U.S. exported $6.4 billion worth of wheat but only $211 million worth of flour. If an additional 10% of the wheat had been exported as flour, the U.S. could have gained an estimated $5.635 billion worth of business activity, 122,400 additional jobs and $1.217 billion worth of increased personal income.

If an additional 10% of the $8.6 billion worth of corn which was exported in 1980 had been processed into wet milling products for export, there could have been as much as $7.645 billion business activity generated, up to 163,400 jobs created and a $1.695 billion increase in personal income.

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[1] "Added-value" agricultural products are those products which have been processed in some way. For the purpose of this paper the emphasis is on wheat flour, wet corn milling products, soybean oil, poultry and beef.

Soybean exports were valued at $5.9 billion in 1980. A 10% increase in processed soybean products would have expanded business activity by $1.646 billion, created 28,320 jobs and increased personal income by as much as $253.7 million.

In addition to these economic benefits, increased exports of added-value products would reduce excess domestic supplies, strengthen commodity prices and reduce the cost of government price support programs.

BARRIERS TO TRADE

Trade barriers erected by many counties in the world are the major impediment to increased added-value exports. Trade barriers imposed by other countries include tariffs—customs duties levied at port and non-tariff restrictions. There are many types of non-tariff barriers to trade. One non-tariff restriction is Japan's import quota on high quality beef where only a limited supply is allowed to enter the country. The European Economic Community (EC) uses a variable levy to protect its common pricing system for grains by raising prices of imported wheat to equal the threshold or minimum import price. Product standards established in West Germany prohibit all but seven of the approximately 7,000 meat processors in the U.S. from exporting beef to that country. Since 1979, Nigeria has used licensing restrictions to limit wheat imports for short periods of time when its foreign exchange reserves become depleted. All of the above restrictions severely curtail the competitive position of America's agricultural products on the world market.

A country may impose barriers to processed agricultural imports to protect its domestic agricultural sector; or to develop its own industrial base. One example of a country protecting its domestic agricultural industry was Japan in 1980. In that year, Japan had a surplus supply of domestically produced pork. Japan restricted imports of foreign produced pork to protect their own industry. This restriction was imposed by the use of "administrative guidance" to encourage importers to comply. No formal government orders were issued and therefore there was no violation of the General Agreement on Tariffs and Trade (GATT).

GATT

The GATT is a multilateral agreement which provides a code of conduct for those countries which engage in international commerce. GATT provides a framework for periodic multilateral negotiations on trade liberalization and policy as well as a formal mechanism for resolving trade disputes. Unfortunately not all restrictions on trade are able to be adjudicated by GATT as shown by the Japanese pork restriction.

The subsidies code under GATT specifically addresses the problems of export subsidies and establishes general standards of conduct with respect to the granting of export subsidies. This code prohibits the use of export subsidies on certain primary products which result in the exporting country gaining more than an equitable share of world trade or which result in prices below those of other suppliers to the same market. The U.S. is currently pursuing several GATT violations. Two complaints of particular concern to added-value exporters are EC export subsidies on wheat flour and the quota on domestic consumption of soybean oil in Spain.

In 1975, the Millers's National Federation filed a complaint with the GATT council charging the EC with unfair subsidization of wheat sold to third country markets as a result of which the EC gained an unequitable share of world wheat flour trade. The EC's market share in wheat flour increased from 29 percent in 1959/60 to 73 percent in 1979/80; the U.S. market share went from 24 percent to 9 percent during this time. In 1979/80, the EC exported 3.6 million tons of wheat flour while the U.S. exported 465,000 metric tons. Secretary Block estimates EC subsidies have cost the federal government $400 million in the wheat program. A GATT panel met in February to hear the case. The GATT panel has until late April to make a determination and recommendation on the case. The U.S. Trade Representative, William Block, will then have one month to make recommendations to the President, and the President will then have another three weeks to announce proposed actions.

EC subsidies have greatly hampered market expansion for American added-value exporters. In 1980, the EC exported 75% of its agricultural products in processed form. However, the U.S. was only able to export 28% of its total agricultural exports in processed form. Congress has held hearings to investigate EC subsidies and many farm organizations have urged stronger actions to eliminate unfair trade competition.

In 1979, the U.S. Trade Representative filed a complaint with GATT protesting the Spanish government's policy of restricting the domestic consumption of soybean oil. Any action that might interfere with U.S. soybean exports is viewed with particular concern because soybeans are a leading U.S. export commodity. Spain imports a large amount of U.S. soybeans which are then crushed to yield soybean meal for use in Spain's growing livestock industry. The crushing process also yields soybean oil. Spain restricts the amount of this oil that can enter its domestic market to prevent it from interfering with their olive oil and sunflower oil industries. Any amount of soybean oil over the amount allowed in the domestic market is then exported. The U.S. has protested this restriction on the amount of soybean oil that can enter Spain's domestic market. The final GATT report of this situation was not favorable to the the U.S. despite the sentiments of a majority of member countries speaking in support of the U.S. position.

The Reagan Administration has actively pursued a uniform effort to reduce unfair trade barriers through the full cooperation and support of the Departments of Agriculture, State and the Office of the U.S. Trade Representative. Congress also provided a tool for the Secretary of Agriculture to use to neutralize the negative effects of export subsidy programs instituted by foreign countries. Section 1203 of the Agriculture and Food Act of 1981 (P.L. 97-98) authorizes a special standby export subsidy program. Counter-subsidization is a drastic measure but one that may provide additional muscle in the bargaining process.

MARKET DEVELOPMENT

Department of Agriculture

In 1981, the Foreign Agriculture Service (FAS) of USDA initiated a market expansion and planning effort designed to identify markets with high export expansion potential for a number of agricultural commodities. An on-going project, this study is identifying constraints to trade, evaluating credit needs, formulating market development activities and analyzing market access problems in order to most effectively use federal funds to expand agricultural exports. Approximately 240 country-commodity packages were prepared in 1981. Some processed products were included but the number needs to be expanded. If the USDA does indeed decide to pursue a policy of increasing added-value exports, this system can be adapted to examine specific markets for added-value exports.

Added-value products could also be included in trade agreements under PL 480 whenever possible. Title I of PL 480 facilitates the sale of agricultural commodities by offering long-term credit. A successful example of including added-value products in a Title I program agreement was a 1978 agreement with Egypt. This agreement stipulated that one-third of their wheat purchases must be in the form of flour.

The use of PL 480 to include added-value products must be kept flexible enough so that it remains practical. It is not realistic in terms of world demand and budget constraints that a set percentage of PL 480 exports be marketed in processed form. However, it is possible to improve the current percentage by taking advantage of opportunities, such as the Egyptian agreement, when they arise.

Department of State

The Department of State has helped to play an active role in supporting USDA's agricultural export promotion efforts. The Department recently sent cables to their Ambassadors overseas calling special attention to the particular advantages to the United States of promoting sales of added-value agricultural products.

Office of the Special Trade Representative

USTR has assumed the responsibility of coordinating an interagency task force composed of representatives of USDA, State, USTR, Commerce and other interested agencies to pool their resources to promote added-value agricultural exports. This effort will facilitate market expansion efforts for processed agricultural products.

Congress

Two major pieces of legislation have been proposed that will facilitate added-value exports. These bills call for appropriations for the Commodity Credit Corporation (CCC) revolving fund and for the formation of export trading companies (ETCs).

The CCC revolving fund was authorized in the 1981 farm bill but no funds have been appropriated. Several Members of Congress have urged USDA to request funding for this program. The CCC revolving fund would provide direct credit to finance short-term export sales of agricultural commodities, including added-value products—currently only guaranteed credit is available. The initial budget outlay would be substantial (probably between $500 million to $1 billion), but once established the fund would be self-perpetuating as repayments of principal and interest are received from the borrowers.

An additional idea being discussed in Congress to increase availability of credit for exporters is to allow agricultural products access to the Export-Import Bank. The Ex-Im bank is an independent government agency which provides loans to foreign countries and firms that buy American industrial goods.

Another proposal to promote agricultural exports calls for federal encouragement and support for the formulation and expansion of U.S. export trading companies (ETCs), patterened after Japanese and European trading companies. Traditionally, these companies have been formed by pooling the capital of several individual firms for the purpose of establishing a company to assist them in broadening their sales to include more costly and less certain foreign markets. ETCs are designed to encourage small and medium-sized companies to become more involved in exporting by decreasing the risk to individual firms of engaging in foreign commerce. Export trading companies can provide a range of services, including trade financing, insurance, warehousing, marketing research, transportation and after-sales servicing. The Senate passed a bill authorizing the development of ETCs but the legislation met with opposition in the House. Controversy centered on the effect the bill would have on antitrust policy.

States

In May of 1983, the National Association of State Departments of Agriculture (NASDA), in cooperation with USDA-FAS, will sponsor a Food and Agriculture exposition in Atlanta. The NASDA trade fair is the first foreign market development activity of its kind. This trade fair will give producers of processed food an opportunity to demonstrate their products to foreign buyers without having to travel abroad.

CONCLUSION

Preliminary studies have been conducted by USDA showing the benefits which will accrue throughout the economy if added-value exports are increased. The expansion of added-value exports will provide an opportunity for the U.S. to add a new dimension to agricultural exports, thus reducing excess domestic supplies and strenghtening lagging commodity prices. However, accomplishing these goals will require strong efforts to overcome trade barriers imposed by other countries. The Reagan Administration has actively pursued the reduction of these barriers through the continued efforts of the Departments of Agriculture, State and the Office of the U.S. Trade Representative. In addition to efforts to reduce trade barriers, market development activities in the federal agencies, Congress and the states will also assist in increasing added-value exports. Given the benefits of added-value exports to the U.S. economy, the question to be answered is not whether America can afford to increase processed exports, but rather, whether this country can afford not to.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, I am pleased you have taken the initiative by calling hearings on a topic that I consider of great importance. You know personally of my strong support for efforts to increase U.S. agricultural exports. I consider this hearing a necessary and valuable step on the part of the Senate Committee on Agriculture to enhance the activities of the private sector and the Administration in their combined efforts to expand U.S. agricultural exports.

I am very interested in the testimony that will be given today as I expect it to provide factual information on:

(1) Why the United States has not exported more value-added exports? and

(2) What might the Administration do in combination with the private sector to increase value-added exports?

Promotion of value-added or processed agricultural products appears to me to be consistent with this Administration's added emphasis on export promotion of all U.S. products where we have a comparative advantage. For this reason I joined Senator Percy in cosponsoring Senate Concurrent Resolution 122 which directs the President to take every possible action to encourage increasing the processed product share of United States agricultural exports.

Regarding competition for exporting processed agricultural products, I wish to point out one of the impediments to increasing exports. The payment of export subsidies or "Export Restitutions" by the European Economic Community (EEC) has resulted in their becoming a major exporter of several processed agricultural products such as beef, poultry, dry milk, cheese, wheat flour, etc. The fact is, if the EEC did not subsidize its exports, it would not be competitive on the world market. By subsidizing, EEC products are sold at prices below U.S. market price levels. If the EEC did not carry out these predatory trade practices, the United States would doubtlessly export more of these products in overseas markets.

Accordingly, I have joined Senator Dole and others in sponsoring S.J. Res. 465. I commend Senator Dole for this very specific and timely resolution to restore fair competition in world agricultural export trade.

A prime example of a processed agricultural product that faces unfair competition is poultry. For example, in 1967, the U.S. accounted for about 57 percent of whole chicken exports to the Middle East, while the EEC accounted for about 43 percent. By 1980, the United States had less than 18 percent of the market while the EEC represented about 70 percent of the market.

I am very gratified that Mr. Marvin Johnson, President of House of Raeford, a large poultry processor and exporter from Raeford, North Carolina, was able to take time from his schedule to appear before our Committee to testify. I know from personal correspondence from the House of Raeford that this company has been subjected to both unfair competition from EEC export subsidies and also import restrictions that have reduced exports into the Common Market Countries.

I thank Mr. Johnson for coming and am certain that his testimony will be most enlightening.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

I am pleased that we are able to meet this morning in order to hear testimony upon the issue of increased processed and value-added exports. The purpose behind today's hearing is that of a factfinding mission, to gain information and to probe intellectually into a matter which potentially could provide great benefit to our country.

The matter of agricultural exports is of no small concern to me. I am a cosponsor of Senate Concurrent Resolution 122, which calls for Presidential encouragement of all possible actions in order to increase the processed product share of U.S. agricultural exports. It pleases me that we are able to hear from such knowledgeable witnesses today so that we might better understand this issue.

Recently, the U.S. Department of Agriculture released a report entitled "Expanding the Processed Product Share of U.S. Agricultural Exports." This report provides an assessment of the economic implications of expanding U.S. exports of value-added agricultural products. Specific figures are calculated for the processed products of wheat, corn, and soybeans. On a strictly numerical level, the report seems to show that there would be sizeable economic and employment advantages as a result of increased activity in exporting processed and value-added products. The report indicates if a 10 percent increase of current raw exports of wheat, corn and soybeans were shipped as processed products, the GNP would increase by nearly $16 million; personal income would rise by over $3 billion; and more than 300,000 new jobs would be created.

However, as is often the case, there are other concerns besides simply numerical ones. To begin with, we must ask whether or not there are sufficient markets for the increased amounts of processed goods. Obviously if trade countries refuse to pay the extra cost of our processing agricultural products, while in addition foregoing their own revenue from the processing procedure, then the policy is going to require serious reconsideration.

A suggestion that also requires discussion recommends increased amounts of processed commodities being shipped under the CCC and PL-480 programs. However, over the past few years, food donations made by the U.S. under PL-480 have been declining slightly due to budget constraints. Therefore if we implement the suggestion as the one just mentioned, will we decrease the amount of raw commodities being exported under PL-480? In addition there are numerous other concerns, such as increased expenses for transportation and storage, as well as incurring trade barriers and tariffs from receiving countries. I'm sure, Mr. Chairman, that all of us here today have only the interests of what is good for our country at heart; and that the testimony given here today will provide a beginning for thoughtful, impartial deliberation on the concerns surrounding this most important topic.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S SENATOR FROM KENTUCKY

Mr. Chairman, I welcome the opportunity to hear the testimony of these informed witnesses on the subject of increasing exports of processed and value-added agricultural products.

Increasing such exports will mean more jobs for American workers, add to our earnings of foreign exchange, and use our abundance of agricultural products. I am in favor of programs to increase exports of all farm products, processed as well as raw commodities.

I am concerned that agricultural exports will decline in fiscal year 1982, by some $3.3 billion according to recent estimates, to $40.5 billion. This decline is the first such drop in the value of our exports in more than a decade. I support efforts to reverse this unfortunate trend.

The omnibus reconciliation act of 1982 provides that the Secretary spend between $170 million and $190 million annually, during the next 3 fiscal years, to increase export sales of agricultural products. Congress took this action because of a concern that not enough has been done to increase exports. I look forward to an early announcement by the administration of the details of how these funds will be spent. I am hopeful that this program will increase sales of all agricultural products, including processed goods.

Today's witnesses will undoubtedly express their concern over America's competitive position in the world market. The new funding for export promotion will be a useful tool in meeting the competition. More can be done. I regret that the administration has not sought funding for the export credit revolving fund authorized in the 1981 farm bill. Use of the revolving credit fund could contribute substantially to U.S. agricultural export promotion.

I do not wish to see only a substitution of processed agricultural product exports for basic commodity exports—the United States should be exporting more of all products that originate on our farms.

Mr. Chairman, I look forward to receiving the views of our witnesses on the subject of promoting export sales.

STATEMENT OF HON. ALLEN OLSON, GOVERNOR, STATE OF NORTH DAKOTA, AND MEMBER, NATIONAL GOVERNORS' ASSOCIATION, COMMITTEE ON AGRICULTURE

Mr. Chairman, members of the Foreign Agricultural Policy Subcommittee, it is a privilege for me to testify here today on behalf of the National Governors' Association on the matter of the export of processed agricultural commodities, an issue of growing importance to all parts of the U.S. food system in this time of economic stress. This subject is important because of the potential that increased processed exports have for job creation and economic activity. Because the food system--agricultural production through food marketing--accounts for nearly one-quarter of our Gross National Product, we must aggressively pursue ways and means of achieving the highest possible level of value-added exports.

The National Governors' Association takes great pride in its record on agricultural export issues. The National Governors' Association contributed to the effort to achieve legislative authority for an export revolving fund, a major overhaul of the Export Administration Act, and now to place a higher national priority for processed agricultural exports. We applaud the members of this Subcommittee and of the full Committee on Agriculture, Nutrition, and Forestry for their continued interest in the area of agricultural exports. We appreciate and value the continued close partnership that we enjoy on these matters.

There are important roles that both the federal and state governments can play in expanding the market opportunities for processed agricultural exports. The National Association of State Departments of Agriculture, with the strong support of the National Governors' Association, will hold a precedent-setting National Food and Agriculture Exposition on May 17-19, 1983, in Atlanta, Georgia, that will demonstrate, for a worldwide audience, the products that many food processors, farmer cooperatives, and other agribusiness firms have to offer. It is anticipated that over $200 million in new business will originate at this meeting. The significance of these sales cannot be underestimated. These sales will be opening markets for new products, creating trade linkages that will help all of American agriculture.

Several states are studying a step that has the potential of breaking new ground. This step involves the creation of statewide and state supported export trading companies that will offer a wide variety of industrial and agricultural products in the world market. This idea is still in the formative stage but was discussed conceptually at the Governors' Conference on Agribusiness and Export Trading Companies which was held in Washington on May 17 at the Hall of States. This is one of the reasons why the National Governors' Association remains strongly committed to prompt passage of the Export Trading Company Act now pending in conference between the House and Senate.

Most recently, Mr. Chairman, the National Governors' Association took a new course of action. Under the direction of Nebraska Governor Charles Thone, Chairman of the Committee on Agriculture, Kansas Governor John Carlin and nine other Governors thoroughly analyzed the record of the federal and state governments on agricultural export issues and examined options that could be exercised in the future to increase agricultural exports. The outcome of this effort was our "White Paper on Agricultural Exports" which was published July 28, 1982. This document called for the establishment of a National Agricultural Export Policy, a recommendation adopted by the National Governors' Association at the 74th NGA annual meeting last month. A copy of this policy can be found in Appendix I of our statement.

The reasons for favoring a higher priority for processed agricultural products have been well established. The U.S. Department of Agriculture has released a study demonstrating the multiplier effect for adding value to several major farm commodities. This same study also reveals how value-added contributes to job creation, economic activity and government revenue through increased tax collections. It is our belief that government expenditures for farm price supports would be reduced if exports of processed products were increased. This is true because processors are willing to bid up the price of a commodity more than bulk dealers because of the larger operating margins that exist in processing goods. We would urge this Subcommittee to encourage the U.S. Department of Agriculture to study this possibility and make its findings available at the earliest possible time.

Mr. Chairman, the National Governors' Association envisioned five steps that the federal government could take to increase the share of value-added products in the world market. These include:

1. Increase the amount of value-added products in government-to-government agreements:
2. Expand the amount of value-added products shipped under the Public Law 480 "Food for Peace" and Commodity Credit Corporation credit programs;
3. Review Foreign Agricultural Service export marketing programs to determine if sufficient attention is given to value-added products;
4. Obtain changes in foreign government trading policies that limit U.S. exports of value-added products; and
5. Take effective measures to halt dumping and export subsidies in third country markets.

States have a significant role to play in the area of increasing the share of value-added products. Their actions include:

1. Identify prospective firms that could benefit from such exports and work with such firms to effectively enter the world market for such products; and
2. Work with appropriate federal officials to facilitate export of such products. This can be achieved through trade expositions and through close coordination and cooperation between states and federal marketing officials abroad.

These points are part of a policy on this issue adopted by the National Governors' Association which can be found in Appendix II.

Mr. Chairman, we have identified some of the measures that the federal and state governments can take to boost agricultural exports, especially of processed or value-added products. Unfortunately, though, many of the processed foods and products that we do export at present are facing stiff competition from heavily subsidized exports, especially from the European Economic Community (EEC).

This experience is recent. In the early 1970s, the Congress wisely eliminated legislative authority for our exported grain, allowing the forces of the marketplace to determine supply and demand. Our exports accelerated, with demand growing faster than population, signalling that a more affluent world desired a better diet. Organizations including U.S. Wheat Associates, U.S. Feed Grains Council, the American Soybean Association, and several others played a critical role in the growth of these markets. Recently, though, this situation has changed radically.

The most startling change involves the EEC becoming an exporter of wheat flour, poultry and other agricultural products, frequently at the expense of U.S. producers. As a consequence of this development, the U.S. Government has filed Section 301 cases against the EEC under the General Agreement on Trade and Tariffs (GATT) in Geneva, Switzerland. At present, these cases have yet to be resolved although the wheat flour case may soon reach a conclusion.

Your Subcommittee, along with the full Committee, has developed what could be an effective first step response to this situation by mandating, as part of the Reconciliation Act, that the Secretary of Agriculture spend between $170-$190 million to boost agricultural exports. It is anticipated that these funds could possibly be used to subsidize interest payments on short-term commercial loans financing exports of products and commodities being adversely affected by subsidized competition. Such an approach may be necessary to preserve markets and to let our competition know that we intend for the terms of world trade to be fair. It should be obvious to us all, Mr. Chairman, that our farmers cannot compete against foreign treasuries.

Mr. Chairman, we appreciate the opportunity to join you today.

Appendix I

Policy adopted by the National Governors' Association, February 1982

G. - 13

EXPORT OF PROCESSED AGRICULTURAL COMMODITIES

Agricultural exports are an essential element of the export posture of the United States. In fiscal year 1982, the nation will export over $44 billion worth of food and fiber. Both states and the federal government have played critical roles in developing new markets and in financing export sales. Today, 70 percent of U.S. exports fall into the category of bulk commodities: feed grains, wheat, cotton, soybeans, leaf tobacco, etc. Currently, these products must be further processed before direct consumption can occur. If these exports were processed in the United States, jobs would be created and more economic activity generated.

A recent U.S. Department of Agriculture study illustrates the potential economic benefits which could be realized if the United States exported more of its agricultural products in processed form. In 1980, the United States exported $6.4 billion of wheat to the world, but only $211 million of wheat flour. If even 10 percent of that amount of wheat were exported as flour, it could create up to $5.635 billion more business activity in this country, provide as many as 122,400 additional jobs, and increase personal income by as much as $1.217 billion.

Last year the United States exported $8.6 billion of feed grains. If an additional 10 percent of that amount were processed into wet milling products for export, it would generate as much as $7.645 billion additional business activity, create up to 163,400 more jobs and increase personal income by $1.695 billion. If only 10 percent of 1980 soybean exports of $5.9 billion were exported in processed form, business activity would increase by up to $1.646 billion, creating up to 28,320 more jobs and increasing personal income by as much as $253.7 million. The same economic effects of greater value-added apply to other agricultural commodities now being exported primarily as raw material.

Federal Role

The federal government plays an important role in the expansion of U.S. agricultural exports. The federal government invests considerable financial and human resources in market development, export finance and trade negotiations. By releasing its report concerning the multiplier effect of adding value to farm commodities prior to export, the U.S. Department of Agriculture has taken an important first step in opening a dialogue that will lead to full adoption of this concept. However, there are a number of items that the U.S. Department of Agriculture, working in conjunction with other federal agencies, should consider to increase the processed share of the export market. These include:

1. Increase the amount of value-added products in government-to-government agreements;
2. Expand the amount of value-added products shipped under the Public Law 480 "Food for Peace" and Commodity Credit Corporation credit programs;
3. Review Foreign Agricultural Service export marketing programs to determine if sufficient attention is given to value-added products;

4. Obtain changes in foreign government trading policies that limit U.S. exports of value-added products; and

5. Take effective measures to halt dumping and export subsidies in third country markets.

State Role

States have a significant role to play in the area of increasing the share of value-added products. Their actions include:

1. Identify prospective firms that could benefit from such exports and work with such firms to effectively enter the world market for such products; and

2. Work with appropriate federal officials to facilitate export of such products. This can be achieved through trade expositions and through close coordination and cooperation between states and federal marketing officials abroad.

Appendix II

PROPOSED NATIONAL AGRICULTURAL EXPORT POLICY

Agricultural exports are a critical element of our national economy. Increased exports lead to a stronger rural economy, more jobs for workers in agriculture and agricultural-related industries (it is estimated that the export of one million metric tons of food or fiber produces 5,000 jobs), and reduced government spending for price support programs. The best way for the United States to get out of the current problems resulting from the tremendous production capacity of American farmers is to sell our way out. The federal government must immediately take full advantage of the opportunities and challenges of the world marketplace by establishing a National Agricultural Export Policy. This policy should contain commitments concerning:

1. The sanctity of export contracts, except for a declaration of war or a breaking of diplomatic relations with an importing country;

2. Quantifiable objectives which will provide targets to measure our success as an exporter;

3. Principles regarding the need for (a) federal financing of exports, specifically adequate funding for the agricultural export revolving fund, and (b) the need to develop new markets, especially in the Southern Hemisphere and Pacific Rim regions where market opportunities are emerging;

4. Principles regarding consultation and coordination with state governments, the private sector, and cooperator groups to develop new markets;

5. Technical assistance and marketing research essential to make export trading companies a reality, especially for sectors of the agricultural economy that have not realized their full export potential;

6. A multi-year grain and agricultural products sales contract with the Soviet Union;

7. Principles regarding the need for reciprocal production adjustments by other exporting nations if such policies are to be adopted in the U.S.; and

8. Priority for processed or value added agricultural products and commodities in U.S. export policies and programs.

The formulation and implementation of a National Agricultural Export Policy will send clear signals to importing nations and our trading partners alike. Such a policy will assist the private and public sectors to use resources more efficiently, avoiding costly confusion that occurs when policies are changed. Such a policy will help lead to a revitalization of the U.S. economy by encouraging maximization of the U.S. agricultural plant, resulting in more jobs and economic activity.

[The following charts were furnished by Assistant Secretary Lesher; see p. 14 for oral reference.]

FIGURE 1-8

World Agricultural Exports, Major Countries and Commodity Groups, 1980

	Total agricultural exports		Cereals		Oilseeds & Products		Animals & animals prod.		Other	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
	Bil. dol.	Pct.	Bil. dol.	Pct.	Bil. dol.	Pct.	Bil. dol.	Pct.	Bil. dol.	Pct.
U.S.	42.5	19	17.6	46	7.6	43	1.6	4	15.7	12
EC-9	(74.4)		(6.7)		(2.0)		(24.6)		(41.1)	
Intra	(48.0)		(4.1)		(1.4)		(17.9)		(24.6)	
Net EC-9	26.4	12	2.6	7	0.6	4	6.7	17	16.5	13
Australia	9.2	4	3.1	8	0.4	2	2.4	6	3.3	2
Brazil	9.1	4	---	---	1.1	6	0.6	1	7.4	6
Canada	6.9	3	3.6	9	0.7	4	0.8	2	1.8	1
Argentina	5.4	2	1.5	4	1.2	7	1.0	3	1.7	1
Total	99.5	44	28.4	74	11.6	66	13.1	33	46.4	35
Other	128.2	56	9.9	26	6.0	34	26.8	67	85.5	65
World total	227.7	100	38.3	100	17.6	100	39.9	100	131.9	100

Compiled from UN and FAO data.

FIGURE 2.

EMERGENCE OF A SECOND WORLD MARKET FOR FARM PRODUCTS

(1980 DATA)

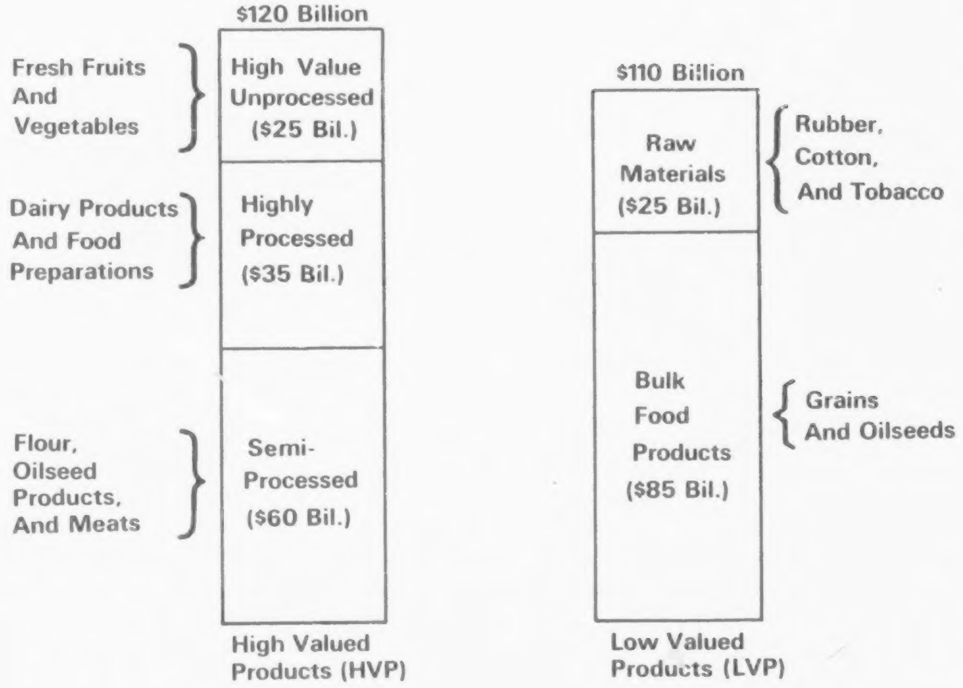
$120 Billion
Fresh Fruits And Vegetables
High Value Unprocessed ($25 Bil.)
Dairy Products And Food Preparations
Highly Processed ($35 Bil.)
Flour, Oilseed Products, And Meats
Semi-Processed ($60 Bil.)
High Valued Products (HVP)
$110 Billion
Raw Materials ($25 Bil.)
Rubber, Cotton, And Tobacco
Bulk Food Products ($85 Bil.)
Grains And Oilseeds
Low Valued Products (LVP)

FIGURE 3.

Total EC Agricultural Exports and Export Refunds, 1980 1/

Commodity	SITC code #	Agricultural exports: Total	Agricultural exports: To Non-EC countries	Export refunds 2/	Refunds as % of export sales to Non-EC countries
		---------- $ Mil.	----------	----------	-----Percent-----
Grains and preparations	04	10,054.0	4,545.1	1,697.4	37.3
Milk and milk products	02	9,977.8	4,065.7	3,823.1	95.4
Agricultural oil and fats	4	2,696.0	1,008.6	5.2	5.1
Sugar and preparations	06	3,635.1	2,606.2	398.5	15.3
Beef and veal	0111	4,458.8	901.1	996.2	110.6
Mutton and lamb	0112	299.4	17.4	--	--
Pork	0113	2,382.1	232.6	127.5	54.8
Eggs and poultry meat	025	1,690.5	549.1	119.0	21.7
Fruits and vegetables	05	7,837.0	1,581.0	57.5	36.4
Wine	1121	3,138.7	1,279.1	36.8	28.8
Tobacco, unmfg.	1210	207.7	64.4	6.3	9.8
Fish and preparations	03	2,514.5	720.9	15.9	2.2
Processed agr. products not specified above 3/	--	15,278.6	6,080.9	308.0	5.1
Other (residual)	--	10,217.3	2,777.9	--	--
Total	--	74,387.5	26,433.0	7,591.4	28.7

1/ 1980 is the most recent year for which detailed information on export subsidies is available.

2/ Excludes small payments on trade between member countries.

3/ Includes (07) coffee, tea, cocoa, spices; (08) animal feed; (09) misc. food preparations; (21) hides and skins; (22) crude animal and vegetable materials; and (26) textile fibers.

FIGURE 4.

Relationships Between Prices and Subsidies For Commodities Exported from the EC (1981, unless otherwise specified)

Commodity	Exporter, importer	Units	EC market price a/	Export refund	Refund as percentage of wholesal price
					-----Percent-----
Poultry (70% Broiler)	EC Average, Middle East b/	¢/lb.	55.6	5.8	10
	France, Saudi Arabia	¢/lb.	58.8	7.6	13
Nonfat dry milk (.5-27%)	Netherlands, Chile c/	$/MT	1,589 d/	859	54
Butter (85% fat)	Netherlands, Mexico c/	$/MT	3,578	974	27
Cheese	Denmark Iran & U.S.	$/lb.	1.10	.27	24
Pigmeat	Denmark, Japan e/	$/MT	2,232	306	14
Beef carcass	W. Germany, E. Europe f/	$/MT	2,222	1,852	83
Bread wheat	France, Egypt g/	$/MT	226	66	29
Wheat flour	France, Egypt	$/MT	738 h/	77.25 i/	11
Barley	France j/ Poland	$/MT	193	39.75	21
Table wine					
--Type RI k/	France United States	m/	2.58	1.17	44 n/
--Type AIII p/	Germany	$/hl.	79.86	6.16	8

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FIGURE 5

EXAMPLE:
POULTRY EXPORTS TO SAUDI ARABIA
(1980 DATA)

EC POULTRY		U.S. POULTRY	
EC PRODUCTION COST	72.4 CENTS		
EC EXPORT SUBSIDY	12.4 CENTS		
EC PRICE	60.0 CENTS	U.S. PRICE	62.0 CENTS
EC SALES TO SAUDI ARABIA: 90,000 TONS		U.S. SALES TO SAUDI ARABIA: 12,000 TONS	

Note: Prices quoted are for selected broiler products; sales are quoted for all poultry meat.

FIGURE 6

HVP PROSPECTS FOR THE 1980'S
(Slower Growth But Still The Leading Trade Sector)

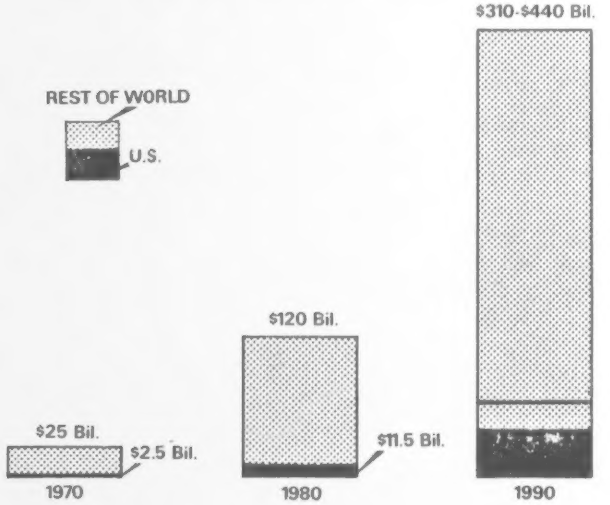
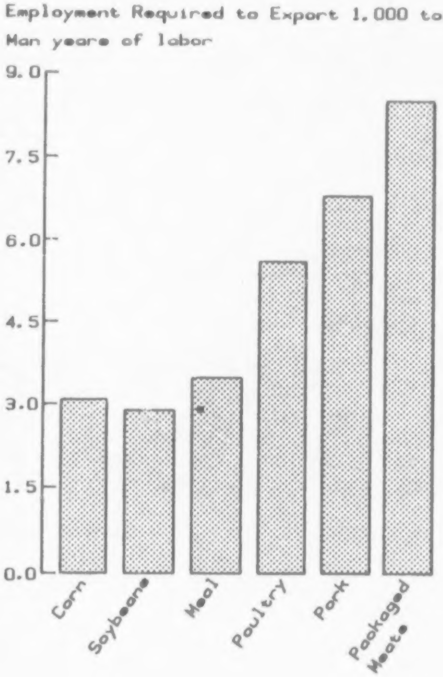


FIGURE 7.

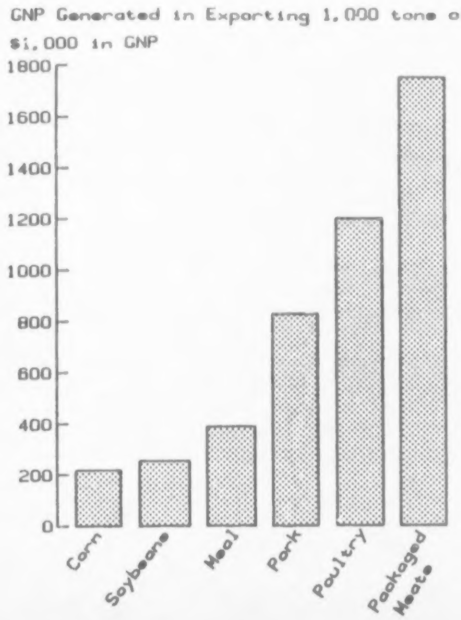
LABOR REQUIRED TO EXPORT SELECTED FARM PRODUCTS (1980 DATA)



1,000 tons of corn	3.1 man years
500 tons of soybeans	2.9 man years
395 tons of soybean meal	3.5 man years
335 tons of poultry	5.6 man years
250 tons of pork	6.8 man years
300 tons of packaged meats	8.5 man years

FIGURE 8.

GNP GENERATED IN THE EXPORT OF SELECTED FARM PRODUCTS (1980 DATA)



1,000 tons of corn	$ 220,000
500 tons of soybeans	$ 260,000
395 tons of soybean meal	$ 390,000
335 tons of poultry	$ 825,000
250 tons of pork	$1,200,000
300 tons of packaged meats	$1,750,000

STATEMENT OF HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Mr. Chairman, I am Howard D. Samuel, President of the Industrial Union Department, AFL-CIO. Accompanying me is Frank T. Hoese, President of the American Federation of Grain Millers. We are here today to represent the Department and ten international unions participating, along with the Industrial Union Department, and the Corn Refiners Association, the Millers' National Association, and the National Soybean Processors Association, who work together in the Export Processing Industry Coalition, or "EPIC".

We are a new voice in the U.S. agricultural trade, a unique labor-industry coalition dedicated to increasing the amount of processed agricutural products in the worldwide farm product trade.

We represent a multi-billion dollar industry in the primary processing of basic agricultural crops—corn, wheat, and soybeans.

The participating international unions include: the Allied Industrial Workers of America; the American Federation of Grain Millers; the Bakery, Confectionery & Tobacco Workers; the International Molders & Allied Workers; the International Union of Operating Engineers; the International Woodworkers of America; the Oil, Chemical, & Atomic Workers; the United Brotherhood of Carpenters & Joiners; the United Cement, Lime, Gypsum & Allied Workers; and the United Steelworkers of America.

Labor has a vital stake in agricultural policy, particularly agricultural trade policy. The stake is jobs.

American agriculture provides hundreds of thousands of jobs for America's organized labor—jobs in farm machinery manufacutring plants, jobs in fertilizer producing plants, jobs in petroleum refineries fueling farm production equipment, jobs in grain milling and other agricultural first-processing plants, jobs in food fabricating and distribution plants, and jobs in the heavily utilized transportation network moving farm products and food supplies—jobs on railroads, in trucking firms, and on barge lines.

We benefit, just as does the country's entire economy, from all agricultural exports. But we benefit more, as does the rest of the economy, when a greater percentage of agricultural exports comes from higher valued products that have moved farther along the processing and food system chain, involving more workers in adding value to the original unprocessed farm products.

Economic studies by the Department of Agriculture support the fact that there are two distinctly different world markets for farm products—the traditional bulk market for low value unprocessed products, and a second market for high value, generally processed products.

We are united behind the concept that more vigorous efforts to increase our share of world trade in high value farm products offers the greatest potential benefit to the entire U.S. economy—for farm producers, for the domestic processing industries, for workers in American plants, and for the government itself, through increasing the base for government tax revenue.

We welcome the economic studies by the Department of Agriculture that demonstrate the tremendous multiplier effect on stimulating income growth that can result from increasing exports of value-added farm products. They have become the basis of EPIC's educational efforts to increase the awareness of the agricultural, government, and labor communities of the benefits of exports of value-added farm products. We welcome these hearings, Mr. Chairman, as further contributing to the goal.

Agriculture and America's workers are each other's best customers, and need each other. Despite declining numbers of individual producers, agriculture is still one of the major consumers of manufactured products that create jobs for American workers. And American labor, despite the devastatingly serious inroads of unemployment in the nation's purchasing power, is still the greatest mass consumer of American food products.

Historically, depressed agriculture has always led to slackening in the nonfarm job market. Also, historically, unemployment and depressed purchasing power has always led to lower farm prices, and worsened the economic plight of farm producers.

Today, both the agricultural sector and the nonfarm economy are in serious economic disarray. The depressed farm economy has led to closings in farm machinery and fertilizer plants, throwing thousands of workers out of jobs. And the depressed purchasing power, resulting from some ten million unemployed workers in this country, is further eroding the domestic food markets for American agriculture.

Farmers and industrial workers alike urgently need something to turn this situation around, and do it quickly before it gets worse.

We think vigorous government action to expand exports of value added processed agricultural products can and should be part of the answer.

We say government action, because it is government policies, of our government or other governments—that influence the direction of agricultural product exports. We can and must be competitive in world markets, but we can't be competitive if we let other governments protect their workers and farmers at the expense of our own.

We are proud of the cost-efficiency of the American agricultural production and processing system. On fair terms, we can compete with any other producers or processors in the world—with the comparative advantage on our side.

But we cannot compete, Mr. Chairman, when the rules of international trade are stacked against us by foreign governments. Neither U.S. farmers nor U.S. processors can compete with the treasuries of other governments.

Whether we like it or not, in the past several decades political factors have become a major influence in international agricultural trade.

Members of EPIC feel that the U.S. government must play an active role in reducing the non-market factors which serve as barriers to increased American exports of processed grain and oilseed products.

Currently, U.S. exports of processed agricultural products are being eroded by foreign government subsidies, which enable foreign producers to substantially undercut U.S. processors in third country markets. U.S. processed exports are threatened with withdrawal of long standing duty-free tariff bindings in Europe, which would seriously limit U.S. export of these products. These are but a few of numerous examples of foreign government action which affects the trade in processed products.

We think it is time to call a halt. We think it is time to put our foot down in international negotiations, and stand up firmly for American producers, American processors, and American workers.

For that reason, Mr. Chairman, members of EPIC believe that in addition to strong promotion efforts by the private agricultural sector, more vigorous involvement by the U.S. government agencies is necessary to create a climnate for growth in export markets for processed products of soybeans, wheat, and corn.

Mr. Chairman, we believe vigorous efforts to increase our share of the world market in processed agricultural products could provide an important stimulus to the depressed U.S. economy, with a resulting increase in jobs and better returns for American farmers. Without it, we face more closings of American plants and more loss of American jobs.

Mr. Chairman, I ask that a more detailed background statement on Increasing U.S. Exports of Processed Agricultural Products, Produced by our labor-industry coalition-EPIC-be made part of this hearing record.

Thank you, Mr. Chairman.

[The following was furnished by Frank Hoese, president, American Federation of Grain Millers:]

INCREASING U.S. EXPORTS OF PROCESSED AGRICULTURAL PRODUCTS

(By Export Processing Industry Coalition—EPIC)

BACKGOUND PAPER

During the 1970's, the American agricultural sector greatly expanded its exports. In 1970, the United States exported $6.7 billion of agricultural products and had a surplus in agricultural trade of $3.3 billion. In 1980, agricultural exports had grown to $40.5 billion, generating a $23.3 billion surplus in these products.

Despite this very rapid increase in the volume of U.S. agricultural exports, there is a growing concern in both industry and government that exporting raw grains and other unprocessed asgricultural commodities does not fully exploit U.S. comparative advantage in the production of agricultural products. We are exporting a declining proportion of processed products compared to total agricultural exports than we were a decade ago. To cite just one example, in 1970 11.8 percent of U.S. wheat exports were in the form of wheat flour, while in 1980 only 3.2 percent of our wheat exports had been processed into wheat flour.

A growing number of America's farmers, businessmen and policy makers are becoming concerned about increasing exports of processed agricultural products because of the sizeable potential economic benefits which could be realized if a greater proportion of our agricultural exports were processed or finished at home.

The economic benefits of exporting processed agricultural products

Wheat is a major foreign exchange earner for the United States. In 1980, the U.S. exported $6.4 billion of wheat to the world, but only $211 million of wheat flour.

If even 10 percent of the amount of wheat we now export were exported, instead, as flour produced from that wheat, it would create up to $5.635 billion more business activity in this country, provide an additional 122,400 jobs, and increase personal income here by as much as $1.217 billion.[1]

The same economic effects of greater value-added apply to corn, soybeans and other agricultural commodities now being exported primarily as raw material.

We exported about $8.6 billion of corn last year.

If even an additional 10 percent of that corn was processed into wet corn milling industry products for export, it would generate as much as $7.645 billion more business activity, creating 163,400 more jobs and increasing personal income by $1.694 billion.

The U.S. exported $5.9 billion worth of soybeans in 1980.

If means were found to export only 10 percent of those soybeans in the form of processed products, it would expand business activity by $1.646 billion, create 28,320 more jobs and increase personal income by $253.7 million.

In highly specialized economies such as the United States, Japan, and the E.E.C., there are numerous stages of production involved in delivering a product to the ultimate consumer. Numerous industries sell the majority of their output to other industries rather than to final markets. This intermediate demand represents a sizable portion of the total economic activity. U.S. inter-industry transactions represent more than 50 percent of the total dollar value transactions.

Thus, the activity of one industry may depend heavily upon the activities of other industries. Like the ripples from a stone thrown in a pond (primary demand), the secondary demands ripple out through the U.S. economy creating economic activity, jobs, and tax revenue for the government. The more processing of raw materials into finished or semi-finished goods which is done "at home," the more the economic benefit is distributed geographically, and the stronger our nation's industrial and technological base remains.

When the processing of raw materials to finished goods occurs offshore, the economic benefits of processing are lost to the U.S. economy and that loss is disproportionately greater because the economic stimulus of processing is much greater than that created by growing and transporting the raw material, both quantitatively and geographically.

No country better recognizes the economic benefits which result from processing raw materials to finished goods and reselling them to world markets than Japan. Japan must import 99.8 percent of its oil and most of the raw materials required in their finished goods. Yet, despite a $54 billion oil bill, last year's trade deficit was $7.0 billion and a trade surplus of $6.5 billion is projected this year. Japan pursues and captures world markets for goods with value-added, processed and manufactured products, with a single-minded concerted effort of all their institutions—industrial, social, financial, and political.

Other industrial countries have also been alert to the necessity of building sound economic growth by encouraging export of manufactured and processed products instead of raw materials—processing their own or imported raw materials into products of additional value for export so they can generate greater business activity within their own country, creating greater employment and greater personal income as a broader base for government revenues.

Maximizing our agricultural advantage

One of America's greatest assets is its agricultural abundance. It is only appropriate that we capitalize upon this asset to ensure that the maximum economic benefit is being generated to the U.S. economy.

Agricultural exports are vital to the economic health of this nation. More than one-third of the product of our cropland moves into export channels. Agricultural exports are expected to total $46 billion in 1981 and, as such, are a vital factor in reducing our deficit in foreign trade. An estimated 1.1 million full-time civilian jobs are related to agricultural exports. These benefits to the economy have accrued despite the fact that a major portion of the exports have been in the form of raw commodities.

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[1] The data presented include direct, indirect and induced economic effects based on an input-output model of the U.S. economy with an endogenous household sector. The data are taken from Gerald Schluter and Kenneth C. Clayton, "Expanding the Processed Product Share of U.S. Agricultural Exports," National Economics Division, Economic Research Division, U.S.D.A., July 1981. Staff Report No. AGESS810701. These effects include an income multiplier effect which will take a number of years to be realized. Therefore these estimates provide a maximum estimate of total activity generated over a period of years.

The question then arises as to whether or not America's full competitive advantage is being realized.

Have we fully exploited this advantage in the best interest of the U.S. economy? The additional benefits which accrue to the economy from processed as opposed to raw agricultural products have already been illustrated. Below is a table from the already referenced report by Schluter and Clayton which presents a more detailed comparison of the maximum economic effect of raw versus processed exports. The table shows the maximum economic activity created by a $1 million export sale of raw commodity and the economic activity generated if that $1 million of raw commodity were exported as an equivalent amount of processed products.

The data presented show the potential domestic economic benefits associated with exported processed versus raw agricultural commodities.[2]

International trade and U.S. processed agricultural exports

A variety of tariff and nontariff barriers confront U.S. agricultural exports in almost all countries in the world. These tariff and nontariff barriers are normally the result of national agricultural policies; i.e. agricultural trade policies are usually secondary to agricultural policies and therefore trade is, in part, determined politically in view of national production and related farm policies. Therefore the international market for U.S. agricultural products depends not only on economic growth but also on agricultural policies abroad. This applies, in even greater degree, to processed agricultural exports. Increasingly, agricultural and raw materials producing nations utilize the processing of agricultural products to expand their production and employment. This should be acceptable to the United States only to the extent that valid economic factors justify the location of processing abroad.

NATIONAL NET EFFECTS OF RAW VERSUS PROCESSED EXPORTS [1]

[Dollar amounts in millions]

	Gross output			Gross employment (workers)			Personal income		
	Raw product	Processed product	Net change	Raw product	Processed product	Net change	Raw product	Processed product	Net change
Flour for wheat	$5.42	$14.26	$8.84	143	335	192	$1.54	$3.45	$1.91
Dressed poultry for corn	5.32	50.22	44.90	147	1,300	1,153	1.40	10.69	9.29
Soybean oilmill products for soybeans	5.21	8.00	2.79	135	183	48	1.48	1.91	.43
Cottonseed mill products for cottonseed	5.61	13.28	7.67	209	372	163	1.36	2.96	1.60
Wet corn milling products for corn	5.32	14.21	8.89	147	337	190	1.40	3.37	1.97

[1] Based on million dollars in sales of raw commodity exports and equivalent amount of processed product.

Generally, the agricultural sector in developed countries receives substantial price protection resulting in overproduction and underconsumption of agricultural output, while in developing countries this sector is heavily taxed which results in undervaluation of agricultural output and underproduction.

The European Community's (EC) common agricultural policy (CAP) is based on a system of administered prices where variable levies are used to cover the difference between the "threshold price" and the world price. By this mechanism, price competition by more efficient foreign suppliers such as the U.S., is prevented. For example, the current levy on wheat flour is about $110 per metric ton. This amounts to a duty of almost 50 percent on wheat flour exports to the EC.

In some instances the CAP threshold price is maintained by government purchases in the domestic market of the EC member states. In such cases, including wheat and certain milk products, export "restitutions" financed by EC funds are used to dump the products on world markets or divert them to inferior uses (such as animal-feed supplements). It has long been a contention of millers in the U.S. that subsidized EC wheat flour exports, especially from France and Italy, are limiting U.S. exports of wheat flour to third country markets.

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[2] The output and employment effects should be seen as *potentially* available and represent the *maximum* effects over a number of years. Whether, and to what extent, they might be actually realized depends on the political and economic realities of international trade.

Japan has a modern and highly developed agricultural industry and is the largest single market for U.S. agricultural exports. Yet because of its fear of commodity price changes, and a desire to protect inefficient domestic production, a basic tenet of its agricultural policy is to achieve certain levels of self-sufficiency which are viewed by many observers as excessive. Thus Japan's agricultural output is maintained at its high level by a series of product price supports, input subsidies, and controlled foreign trade such that the domestic prices of certain food items in Japan are double or, in some cases, three times those prevailing in world markets.

In Japan beef production is protected by an annual import quota and a 25 percent ad valorem tariff; pork prices are stabilized by government purchases and sales of stocks and by a variable duty on imports; poultry, eggs and dairy product imports have a 20-35 percent tariff imposed on them; and an agency of the Ministry of Agriculture, Forestry and Fisheries is the sole buyer and seller of domestic and imported food grains. It sets farm purchase prices and resale prices that are significantly different from international prices. This last item accounts for the fact that Japan currently has a 25 percent duty and a quota on imports of wheat flour. The quota is announced every six months to correspond to domestic output and demand conditions.

For rice, support prices paid by the Japanese government to farmers are equivalent to approximately twice the level of world prices. At the same time, to maintain consumption, the Japanese government pays a domestic subsidy, and domestic prices still exceed import prices. As a result of these administered prices, rice production exceeds consumption, forcing the government to stockpile the surplus rice, divert it to feedstock or export it at subsidized rates. Japan has dumped about 500,000 tons of rice abroad in each of the last two years, a substantial amount given that world demand is inelastic and total world trade amounts to less than 8 million tons.

Another series of trade barriers in Japan was recently pointed out by Secretary Block. In a speech given before the U.S.-Japan Trade Conference in Chicago on July 31, 1981, Secretary Block stated that "the key problem facing U.S. processed foods in Japan involves the Japanese limitation on the type and tolerances of food additives used in the foods". Block suggested that the U.S. should negotiate some relief with respect to additives that are considered safe by international health organizations.

Increasing U.S. processed agricultural exports

The domestic agricultural policies of the EC and Japan and their international trade implications have been detailed to illustrate the problems which must be confronted in trying to expand processed U.S. agricultural commodities. For example, if basic grain prices are controlled domestically at levels higher than world prices it follows that prices of processed food products domestically would generally be higher than the prices of imported processed food products. What this means is that for the major developed markets like the EC and Japan our ability to significantly expand our processed agricultural exports depends upon reforms of their domestic agricultural policies. The only exception would be for products which these countries don't domestically produce and for which there are no available domestic substitutes.

With respect to markets in the communist world, principally the Soviet Union and the People's Republic of China, access there is controlled government to government purchase agreements. These purchases depend on their domestic agricultural conditions and yields and are therefore quite variable. For example, the policy decision of the U.S.S.R. made in the early 1970's to make up crop shortfalls with imports to maintain livestock production and meat consumption levels will continue to affect the actual level of U.S. exports in the coming years. Any increases in the processed product share of our agricultural exports to these countries will depend substantially on what can be negotiated in the government to government agreements.

The major constraint to exporting to most of the developing countries, outside of various trade barriers, is their ability to finance imports. For the poorest countries this would mean we would need to expand the amount of processed products programmed under Public Law 480. For the more advanced of these countries, more processed products could be supported by the Department of Agriculture's Commodity Credit Corporation. With respect to commercial markets in the developing world in Southeast Asia, Latin America and the Middle East, we must ensure that subsidized exports from the EC or Japan are not displacing U.S. exports, especially of processed agricultural goods.

A change of thinking

For several decades, the major emphasis of U.S. agricultural policy has been oriented toward the basic raw commodities such as wheat, feedgrains, soybeans, and cotton. While market development of these commodities should continue, a new dimension should be added if we are to maximize the economic benefits of our agricultural abundance—the objective of increasing exports of even more of these basic commodities in processed form.

The potential economic benefits to the U.S. economy have been presented as well as the realities of world agricultural markets which, if ignored by the United States Government, will assure that these potential benefits will not be realized. The issue is what can be done.

What can be done

Certain positive courses of action can be taken now to maximize the full competitive advantage of our agricultural commodities. The most feasible and immediate actions can be taken with respect to activities which the U.S. Government has immediate control over.

1. Increase the amount of processed agricultural products subject to bilateral grain agreements. This would apply not only to communist countries like the Soviet Union or the People's Republic of China, but also to countries like Japan, Mexico and Taiwan with which the U.S. has negotiated such agreements in the past.
2. Expand the amount of processed commodities which are shipped under the CCC and Public Law 480 programs.
3. Review the export marketing programs of the Foreign Agricultural Service to establish whether sufficient attention is given to processed as well as raw agricultural exports.
4. Obtain changes in the government policies of our trading partners which are now severely limiting the export of U.S. agricultural products, particularly processed agricultural products. Japan and the EC must act to reduce the adverse international effects of their domestic agricultural policies. Domestic policies which substantially distort international trade must become subject to international discussion and negotiation.
5. Take effective measures to halt the dumping and subsidy practices of exporters of processed agricultural products in third markets where such dumping and subsidization unfairly restricts U.S. exports. If such practices cannot be negotiated away, the U.S. government should consider selectively matching the subsidies until such practices cease.

CONCLUSION

The growth rate of productivity in U.S. manufacturing over the period from 1973 to 1980 was lower than that of any of the major developed countries with the single exception of the United Kingdom. While data provided by the Bureau of Labor Statistics show that the United States has a higher output per employed person than other developed countries, the declining U.S. productivity growth rate has caused the gap to be narrowed. This trend must be reversed for the sake of and strength of the nation. That strength can be generated in part by reestablishing a strong, competitive export program.

President Reagan, in his economic address of February 1981, said, "It is time to create new jobs, to build and rebuild industry, and give the American people room for what they do best"—in order, as the President later put it, "to make America competitive once again in world markets."

Agricultural production and agricultural processing are "what we do best" and, as such, are ideal springboards from which to establish a more competitive position in world trade.

STATEMENT OF RICHARD COONROD, EXECUTIVE VICE PRESIDENT, THE PILLSBURY CO.

Mr. Chairman, Members of the Committee, my name is Richard Coonrod and I am Executive Vice President and President of the Agri-Products Group at The Pillsbury Company. I am pleased to have an opportunity this morning to talk with you about the importance of value-added exports to the U.S. economy.

Over the next few minutes you will hear testimony from representatives of both the agri-business sector and various labor organizations. Together we recently joined in a group called EPIC—the Export Processing Industry Coalition. This group was formulated through the efforts of the Millers' National Federation, the Corn Refiners Association, Inc., the National Soybean Processors Association, and the Industrial Union Department of the AFL–CIO. EPIC is a unique labor-industry coalition dedicated to increasing U.S. exports of processed agricultural products. On behalf of EPIC, I would like to commend Senator Boschwitz and the other members of the Committee for focusing on this subject.

In addition, on behalf of EPIC, I would like to commend the Economic Research Service of the U.S. Department of Agriculture for their recently completed study which compares the economic benefits of processed versus bulk commodity exports. Without a doubt the Department's study is the most realistic assessment to date of the economic benefits generated from the export of value-added products. A number of studies have been published over the last few years which attempt to estimate the economic activity generated through exporting value-added products. Most of these studies have overstated these economic benefits to the point where they have actually been a disservice to those of us interested in seeing the Department of Agriculture adopt a comprehensive export policy which emphasizes value-added exports. I believe the ERS study represents a major step toward achieving our goal of redirecting our current export policies and programs in the direction of value-added products.

Each of the members of EPIC who will present testimony to the Committee today will focus on the benefits of exporting various types of processed agricultural products. As President of the Agri-Products Group for The Pillsbury Company, I would like to focus on two specific value-added products: (1) wheat flour and (2) edible protein.

Wheat flour

Pillsbury is one of the leading U.S. exporters of wheat flour, averaging 3.7 million hundredweight per year since 1977. We, at The Pillsbury Company, recommend that Secretary Block and his staff closely examine the economic benefits of exporting wheat versus wheat flour.

In the ERS study I referred to earlier, a comparison was made between the economic activity generated between exporting 1,000 tons of wheat versus an equivalent amount of flour (i.e., 740 tons). ES found that 1,000 tons of exported wheat generated $295,000 in economic activity and 4.5 man-years of employment. However, when an equivalent amount of flour was exported, approximately $400,000 in economic activity and 6 man-hours of employment were generated. Extending the processing one step further, ERS found that an equivalent amount of bakery products (i.e., 600 tons) generated $1.4 million in economic activity and 12 man-years of employment.

It is interesting to note, Mr. Chairman, that in 1981, U.S. exports of wheat and wheat products totaled 1.8 billion bushels. Of this total, 47 million bushels or 2.6 percent was in flour exports. Had the wheat flour share of this export figure increased by only one-third, from 47 million bushels to 62 million bushels, over 3,000 additional jobs and over $220 million in economic activity would have been generated.

Mr. Chairman, it is obvious from these statistics that an export policy which generated additional wheat flour exports would:

1. generate additional economic activity here in the United States;
2. create additional jobs in the United States;
3. better utilize existing U.S. milling capacity, which is currently operating at 80 percent of capacity; and
4. provide a product, particularly in the case of developing countries, which can be directly consumed by the public.

Given the situation, I would make the following recommendations to this Committee and the Department of Agriculture concerning wheat flour exports:

1. Conduct a thorough review of wheat versus wheat flour exports under Title I of the Public Law 480 program. There are countries under title I agreements which have recently increased their imports of wheat and decreased their imports of flour, even though their total imports of flour from all sources have not drastically changed. This is a clear signal that the United States is subsidizing wheat exports to countries who are increasing their own milling capacity, while at the same time, importing subsidized wheat flour from the European Community.

2. Earmark a portion of the Export Promotion Program funds, recently included in the Omnibus Budget Reconciliation bill by Senator Helms, for wheat flour. Direct subsidies combined with an interest buy-down system of three to five export credits, would stimulate commercial flour exports from the U.S. to certain world flour mar-

kets. This effort, which has been endorsed by the Millers' National Federation, should be targeted at Egypt. An incentive allocation of $50 million would generate approximately 500,000 metric tons of U.S flour exports. In addition, these exports would hit directly at EC subsidization practices, the subject of our longstanding, unresolved trade complaint.

Edible beans

Last spring, Pillsbury acquired the edible protein division of Wickes. With this acquisition, Pillsbury became the largest U.S. processor, marketer, and exporter of edible beans.

For those of you who are unfamiliar with the edible bean industry, a little background may be helpful:

There are nine major types of dry edible beans—with Pinto, Navy, and Great Northerns accounting for almost 70 percent of the U.S. production.

The leading edible bean production states are: Michigan, California, Nebraska, North Dakota, Idaho, and Colorado. These six states accounted for 72 percent of the 1981/82 production.

U.S. dry edible bean production has doubled since 1965—increasing from 16 million hundredweight to 32 million hundredweight in 1981/82.

Even though the United States is the largest edible bean exporter, developing countries, lead by the PRC, India and Brazil, account for about 60 percent of the total world production.

Prior to 1978, the EC was the largest importer of U.S. edible beans, accounting for over 40 percent of our total exports.

However, Mexico suffered two consecutive poor crops in 1979 and 1980, which lead to a dramatic increase in U.S. edible bean exports to Mexico.

U.S. edible bean exports to Mexico averaged 32,000 metric tons over the period 1975-79. However, in 1980/81 this level increased to tenfold to 362,000 metric tons.

Mexico, through its purchasing program, has re-built its stocks to a level equivalent to 50 percent of their annual production.

Pinto beans, the largest single type of edible protein exported by the United States, rose to $35 per hundredweight during the peak demand period in 1980/81. However, with the sharp decline in Mexico imports, cash prices for Pinto beans have fallen to $14 per hundredweight—a 60 percent price decline over the last 12 months.

Dry edible beans are a processed product which the Department of Agriculture has generally overlooked when it comes to its export programs. Edible beans offer, particularly to developing countries, a cheap source of high protein food, which can be used in a variety of ways. They are easily handled by developing countries, who lack the sophisticated infrastructure and like wheat flour, offer a source of high protein which can be directly consumed.

Few resources are currently being provided by the Department to expand dry edible bean exports. No funds have been programed for fiscal year 1982 or fiscal year 1983 under the Public Law 480 program. In fact, the only aid which is currently being provided by the Department is approximately $75,000 which the Foreign Agriculture Service is spending in market development programs. It is time for the Department to refocus their export programs to include products like edible beans. Such an effort would help both producers and exporters, particularly in light of the 50 percent decline in edible bean prices over the last 12 months.

Specifically I would recommend that the Department:

1. Allocate funds under title I and title II of the Public Law 480 for fiscal year 1983. A number of countries in Africa and in Latin America have expressed interest in purchasing our edible beans, however, they lack adequate foreign exchange to do so.

2. Include edible beans as part of any CCC credit package offered to countries which are potential markets. Recently the United States extended a $1 billion credit line to Mexico—which over the last two years has received about 35 percent of the total U.S. edible protein exports. However, little attempt was made by the Department to include edible beans as part of the credit package. In this case, edible bean producers and exporters lost a valuable chance to gain some additional export sales.

SUMMARY

In summary, I would make two specific suggestions regarding value-added exports and USDA's current export program:

1. I would encourage Secretary Block to appoint a task force to analyze all of existing export programs, including the Public Law 480, GSM-102, and the market development program. This task force should consist of representatives from USDA

and the State Department. In addition, the task force should include representatives from producer groups, cooperator groups and the export industry.

Such a task force should focus on the question of whether USDA's emphasis over the past three decades on bulk commodity exports has been appropriate. Specifically, such a task force should analyze the impact of these export programs on: enhancing farm prices; generating economic activity; creating additional employment opportunities; providing importing countries with products which are high in nutritional value and directly consumable; and,

2. As the Administration and the Congress begins to rework the Carribean Basin Initiative for the next session of Congress, consideration should be given to adding a major food aid package as part of the revised plan. A major focus of such a food and package should be value-added products, including wheat flour and edible beans.

Including a food aid package as part of the CBI effort would generate additional goodwill from the recipient countries, while at the same time providing another outlet from growing surplus of agricultural products.

Again, I thank the members of this Committee for holding this hearing and would be glad to answer any questions you may have.

STATEMENT OF JOHN G. REED, JR., VICE PRESIDENT/INTERNATIONAL, ARCHER DANIELS MIDLAND CO.

INTRODUCTION

U.S. soybean growers, soybean processors, and trade policy officials have consistently advocated free trade in soybeans, soybean meal, soybean oil, and competing oilseeds, oilseed meals, and fats and oils. However, most foreign governments are protecting their oilseed crushing industries with a variety of processing and export subsidies. These subsidies are so pervasive that the U.S. soybean processing industry has become the world's residual supplier, absorbing most of the world's excess capacity, and operating at a severe competitive disadvantage vs. foreign processors. In addition to the damage being suffered by the industry, the whole U.S. economy is incurring a substantial loss of employment, output, personal income, and federal tax revenue.

The objective of this White Paper is to describe what is happening, quantify its effects, and recommend a major effort by the U.S. soybean industry and the U.S. government to overcome the problem.

ROLE IN THE WORLD MARKET

The U.S. soybean processing industry is located in the midst of the largest supply of soybeans in the world. It is served by the most efficient transportation and exporting systems in the world. Its plants operate with the greatest efficiency and at the lowest cost in the world. Soybean meal and oil produced in the U.S. can be shipped quickly and economically, in any desired quantity, at minimum total transportation cost, to all the world's importing countries. For these reasons, economic logic and the laws of comparative economic advantage indicate that the U.S. soybean processing industry should be the world's primary supplier of soybean meal and oil. This was indeed the case eight years ago.

Today, however, the unfortunate truth is that the U.S. soybean processing industry, instead of being the world's primary supplier of soybean meal and oil, has become the world's residual supplier of soybean meal and oil. Today, processing industries in other countries usually run close to effective capacity. The U.S. processing industry supplies whatever residual demand is left over. This development has severe adverse consequences throughout the whole U.S. economy, among which are the following:

Reduced demand for U.S. soybeans. Lower prices for soybean growers, and increasing dependence on subsidized foreign demand which is subject to foreign government policy changes. Reduced farm income. Lower volume of soybeans processed, with higher unit costs. Reduced employment in both the soybean processing industry and among the many suppliers to the industry. Lower processor earnings (or outright losses). Reduced capital investment. Reduced federal, state, and local tax revenues.

In addition, reduced demand for U.S. soybeans means less acres shifted to soybeans from surplus feed grains, cotton, and wheat. This results in larger surpluses and lower prices for these crops, which in turn raises federal government outlays for price support activities.

Soybean processing in the U.S. is a $10 billion industry. It is essential to the security of the nation's food supply, and it makes a major contribution to the nation's balance of payments. At this time of major crop surpluses, depressed farm income, economic recession, and huge federal budget deficits, the United States should not tolerate a major industry like soybean processing being cast into the unnatural role of residual supplier to the rest of the world. This is especially true when the primary cause is foreign subsidies, and when U.S. government actions have been a significant contributing factor.

FOREIGN SUBSIDIES

Foreign processing and export subsidies injure the U.S. processor in three ways:

They provide foreign processors with a major economic advantage in supplying their own domestic meal and oil markets.

They enable foreign processors to displace U.S. meal and oil in third country markets.

They even enable foreign processors to import soybeans (mostly U.S. soybeans) and re-export soybean meal and oil, again displacing U.S. meal and oil in third country markets.

It is beyond the scope of this paper to provide a detailed analysis of all relevant foreign subsidies. Most would require a separate treatise. However, a brief summary of the direct and indirect subsidies utilized by foreign competitors follows:

1. Differential Export Taxes: These are used by soybean producing and exporting countries, notably Brazil and Argentina, who tax soybean exports at a higher rate than soybean meal and oil exports. This reduces their local crushers' soybean cost more than it reduces their product revenue, thereby subsidizing local crushing margins.

2. Differential Import Duties: These are used by importing countries such as the EC, Japan, Taiwan, Korea, and others who levy a higher rate of duty on soybean meal and/or oil imports than they do on soybean imports. This increases local crushers' product revenue more than it increases their soybean cost, again subsidizing local crushing margins.

3. Subsidized Financing: This practice includes one or both of the following: Subsidized term debt for plant construction. Subsidized working captial financing, especially the financing of working captial which is directly related to the export of soybean meal and oil.

Much of Brazil's present excess capacity was built utilizing heavily subsidized term debt. Now that it is built, it is kept running by subsidized working capital financing. Under one scheme subsidized working capital financing is combined with a drawback system which enables the import of soybeans (including U.S. soybeans!) and re-export of soybean meal and oil to third country markets.

4. Price Controls: When a government agency controls both the cost of soybeans and the price of soybean meal and oil, it has the power to establish crushing margins at any desired level. This is the situation in Portugal, where highly profitable crushing margins provided by the government have encouraged a sharp expansion of capacity.

5. Quotas: Quotas can enhance local crushing margins in the following ways:

Domestic consumption quotas for soybean oil can force the export to third country markets of output which exceeds the quotas. This is the case in Spain today.

Low export quotas on soybeans can depress the price at which local crushers are able to purchase soybeans. This has frequently been the case in Brazil.

Low import quotas for soybean meal or oil or refusal to issue import permits or licenses, can enable local crushers to obtain more than world market prices for soybean meal and oil.

6. Profit Guarantees: When a government agency has the authority to guarantee crushers a profit, then by definition it has the ability to subsidize the industry. This is the situation in Mexico. It has resulted in Mexico recently paying an exorbitant price for large quantities of U.S. sunflowerseed, making it impossible for U.S. processors to compete in world markets.

7. Export Rebates or Credits: Exporting countries can easily add to their crushers' margins by granting rebates or credits (including tax credits) on product exports. Both Brazil and Argentina have utilized this practice.

8. Restitutions: Restitutions paid to crushers to offset oilseed prices which are supported at a premium to world market values enable the crushers to perform an inherently uneconomic crushing operation. In the EC, rapeseed and sunflowerseed restitutions provide EC crushers with highly profitable crushing margins. As a result, meal and oil from both seeds is forced into the marketplace (including, in the case of rapeseed oil, third country markets), displacing U.S. soybean meal and oil.

9. Income Tax Exemptions: A government which exempts part of its crushers' profit from income tax has, in effect, subsidized its crushers. This is presently the case in Brazil, as follows:

Earnings from soybean oil exports are exempt from income tax.

Futures market gains from authorized hedging at the Chicago Board of Trade are exempt from income tax, while corresponding hedging losses are deductible for income tax purposes.

The practices described above are almost universally employed, singly or in combination, by the non-communist competitors of the U.S. soybean processing industry. Foreign subsidies, combined with the U.S. traditional commitment to policies of free trade, have clearly made U.S. soybean processors the residual supplier of crushing capacity to the rest of the world. Unless and until there is a fundamental change in this situation, it seems highly likely that:

Foreign capacity will continue to expand.

Most excess capacity in the world will continue to be carried by the United States.

The present dismal environment for U.S. soybean processors will continue indefinitely, with only brief periods of prosperity caused by short oilseed crops in other major producing areas.

The large extent to which foreign soybean crushing margins and product exports are subsidized by government action is clearly demonstrated by Table 1. It shows that 81 percent of the foreign crush is subsidized, another 14 percent takes place in centrally planned economies where political considerations frequently overrule free market economics; and only 5 percent appears to occur under essentially free market conditions. It is worth noting that none of the free market countries are significant net exporters of soybean meal or oil. Where free market economics are allowed to govern, the United States fulfills its natural role and obtains the export business.

TABLE 1.—1980-81 FOREIGN SOYBEAN CRUSH

[In million metric tons]

	Identified subsidies	Centrally planned	No identified subsidies
EC 10	10.2		
Spain	2.9		
Portugal	.2		
Other West Europe			0.5
West Europe	13.3		.5
Brazil	14.7		
Japan	3.3		
China, People's Republic		3.3	
Mexico	1.7		
U.S.S.R		1.7	
East Europe		1.2	
Taiwan	1.0		
Argentina	.9		
Canada	.9		
Korea	.3		
Malaysia	.1		
Australia	.1		
All other			2.0
Total foreign	36.3	6.2	2.5
Percent	81	14	5

U.S GOVERNMENT ACTIONS

Embargoes: Repeated embargoes on exports of U.S. agricultural products (1973, 1974, 1975, 1980) have convinced many importing countries that the United States is not a reliable supplier. Their resulting efforts to diversify sources of supply have undoubtedly encouraged other countries to expand their oilseed producing, processing, and exporting capacities.

Financing: Malaysian palm oil provides the strongest competition to soybean oil in the world export markets (see Table 5). U.S. support of World Bank and Asian Development Bank financing contributed to the rapid growth of the palm oil industry in Malaysia. Palm oil is a tree crop, the production of which is not affected by short term fluctuations in supply, demand, or price. The inherent economics of palm oil production are such that it will always be priced into consumption. If a world edible oil surplus develops, palm oil prices will discount soybean oil prices to any degree that is necessary to move the palm oil. Such conditions have been prevalent since 1980, causing U.S. soybean oil supplies to back up and become burdensome. The inevitable result is reduced demand and lower prices for U.S. soybean growers, and depressed crushing margins for U.S. soybean processors.

In retrospect, it seems doubtful that the substantial adverse impact on the U.S. soybean industry was given adequate consideration when the loans were authorized. The adverse impact is now proven, and must be given adequate recognition in the future.

Public Law 480: Over the past 25 years, Public Law 480 shipments of soybean oil have played a major role in providing food aid to needy countries, developing long term market for soybean oil, and moving stocks into consumption. Since the first such shipments in 1956, Public Law 480 soybean oil has played a vital role in feeding hungry citizens of needy nations, while simultaneously fostering the development of long term cash markets for soybean oil.

The correlation between Public Law 480 shipments and long term market growth is shown dramatically in Table 2. Ten countries which received a total of 961,000 metric tons of Public Law 480 soybean oil over the past 26 years have grown into cash markets which imported 1.8 mil metric tons of soybean oil during the 1980-81 crop year alone. This is a remarkable confirmation of Public Law 480's effectiveness in developing markets for soybean oil.

Unfortunately, Public Law 480 soybean oil shipments have declined sharply from earlier levels. During 1962-71, annual average shipments were 245,000 metric tons.[1] However, average shipments during 1972-81 dropped to 109,000 metric tons, only 44 percent of the preceding level. Table 3 portrays the long term decline in Public Law 480 soybean oil shipments. It is more than just a coincidence that the U.S. lost market share during this period.

TABLE 2.—SOYBEAN OIL MARKET GROWTH IN PUBLIC LAW 480 RECIPIENT COUNTRIES

[10 selected countries; thousands of metric tons]

Country	Public Law 480 soybean oil shipments [1]			Total soybean oil imports, 1980-81 [2]
	Total, 1956-81	Maximum single year	Fiscal 1981	
India	181	28		637
Iran	17	7		286
Pakistan	467	50	49	237
Yugoslavia	81	15		154
Turkey	67	14		109
Columbia	7	5		99
Morocco	28	12		92
Chile	22	12		67
Tunisia	72	11		60
UAR	19	5		60
Total	961	159	49	1,801

[1] Titles I and III only (excludes donations).
[2] From all origins.

Trade Negotiations: U.S. trade negotiations on soybeans and soybean products have met with mixed results. Successes include the following: Preservation of zero duty bindings on EC imports of soybeans and soybean meal; Brazilian agreement in 1976 to phase out a 20 percent tax credit on soybean exports; EC termination of its import deposit scheme for milk powder following a 1976 301 case and a 1977 GATT panel finding.

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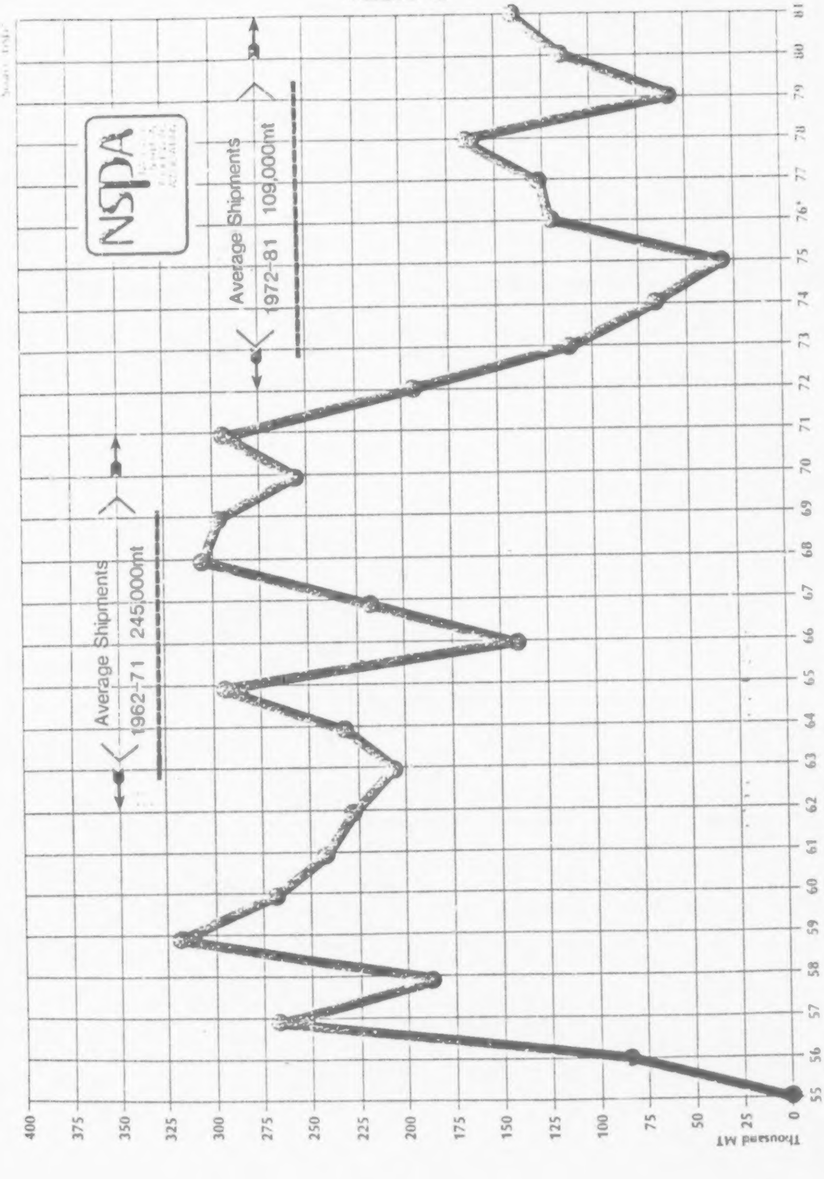
[1] Titles I and III only (excludes donations).

An unfortunate setback occurred in 1981 when a GATT panel rendered an adverse finding on Spain's use of domestic soybean oil consumption quotas. The United States managed to prevent the panel finding from being adopted by the GATT Council, but has made no progress on the underlying issue.

Table 3



Quantity of United States Soybean Oil Exports

Yet to be determined is whether the Subsidies Code negotiated in the 1980 Tokyo Round MTN will be of practical value in eliminating the many foreign export subsidies which adversely affect the U.S. soybean processing industry.

It is evident that both the industry and our trade negotiators have been making ad hoc responses to individual issues. There has been no effort to develop an overall trade strategy based upon a comprehensive review of all foreign subsidies and other trade restricting practices.

EFFECTS ON THE U.S. ECONOMY

Allowing foreign processors to gain a subsidized economic advantage imposes a heavy opportunity cost on the U.S. economy. The foreign advantage causes large quantities of U.S. soybeans to be exported for processing overseas, instead of processing them here and exporting the soybean meal and soybean oil. The attendant loss of value-added activity has adverse consequences throughout the economy.

Taking the 1980-81 crop year as an example, if an additional 5.4 million metric tons (198 million bushels) had been processed in the U.S. instead of by foreign processors, and the products exported instead of the soybeans, the industry's capacity utilization would have been a desirable 85 percent instead of a depressed 71 percent. The value added by that additional processing would have provided major benefits to the U.S. economy. Based on recent USDA/ERS Staff Reports, benefits are estimated to be the following (See Table 4 for details):

Gross output (billions)	Up $5.7
Gross employment (workers employed)	Up 50,200
Personal income (billions)	Up $1.0
Federal income tax revenue (millions)	Up $190

The magnitude of the foregone benefits clearly justifies appropriate action to recover them from subsidized foreign competitors.

TABLE 4.—*Economic effects of 85 percent capacity utilization (October 1980-September 1981)*

	Million metric tons
Capacity (1,425 million bushels)	38.8
85 percent of capacity (1,211 million bushels)	33.0
Actual crush (1,014 million bushels, 71 percent of capacity)	27.6
Additional crush to reach 85 percent of capacity	5.4
Average value of 1980-81 soybean exports (per metric ton)	$300
Value of 5.4 million metric tons soybean exports (millions)	$1,620

Effects of replacing 5.4 million metric tons soybean exports with equivalent quantities of soybean meal and soybean oil exports produced in U.S. processing plants:

Economic factor	USDA multiplier [1]	Effect
Gross output (billions)	3.54	Up $5.7
Gross employment	31	Up 50,200
Personal income (billions)	.62	Up $1.0
Corporate income tax (millions)	.046	Up $75
Personal income (millions)	.071	Up $115
Total Federal taxes (millions)	.117	Up $190

[1] From USDA, ERS, staff report No. AGE55810701, July 1981, and staff report No. AGE5820714, June 1982. (Multipliers have been adjusted by Staff Report authors to reflect current price-volume relationships and labor productivity).

CONCLUSIONS

After a thorough review of all the available evidence, U.S. soybean processors have reached the following painful but inescapable conclusions:

Our traditional policy of supporting free world trade in oilseeds and oilseed products has not achieved the desired result. Only 5 percent of the foreign soybean crush takes place under free market conditions.

Foreign processing and exporting subsidies have overcome the U.S. processing industry's inherent economic advantages. As a result, we are unable to compete effectively in many world meal and oil markets, and we have become the world's residual supplier of soybean meal and oil.

The resulting loss of world market share has a severe adverse effect on the whole U.S. economy.

POLICY RECOMMENDATIONS

Because the trade policies of foreign governments are the underlying cause of the problem, the industry cannot solve the problem by itself. Prompt and decisive action by the U.S. government is required. We recommend the following immediate steps to begin restoring an equitable competitive balance:

Allocate $50 million per year of "interest buy-down" funds to increase U.S. soybean oil exports. Target the use of such funds for India and other countries where the U.S. has lost its former share of the market to subsidized foreign exports.

Restore title I Public Law 480 programming for soybean oil to its former level of at least 250,000 metric tons per year. Once this level is reached, maintain it as a minimum in the future, and increase it when justified by human needs and market conditions.

Allocate a substantial volume of government sponsored short and medium term commercial credit for export sales of soybean meal and soybean oil to appropriate destinations. Such credit should remain a permanent part of our export marketing effort.

In addition, we recommend that the U.S. government undertake a major global effort to eliminate the foreign trade practices which are damaging the U.S. soybean processing industry and the U.S. economy. We pledge our full support to the U.S. government agencies and officials who would manage such an effort.

Finally, if satisfactory relief cannot be obtained from the foregoing steps, we would then recommend that the U.S. government initiate countervailing export subsidies for soybean oil. Such action would be contrary to our traditional advocacy of free trade in the soy complex. Nevertheless, if the rest of the free world persists in subsidizing its processors, we will be forced to seek equitable treatment in order to survive.

STATEMENT OF DANIEL E. SHAUGHNESSY, PRESIDENT, WESTERN GREAT LAKES MARITIME ASSOCIATION, INC.

My name is Daniel E. Shaughnessy and I am President of the Western Great Lakes Maritime Association, a non-profit trade association, having as its primary objective increased cargo opportunities and maritime traffic in the Western Great Lakes. Our membership, which includes port, terminal and shipping interests, has a particular concern about the movement of agricultural export cargoes from the Western Great Lakes, and the potential for increased exports of processed and value-added products is of special interest to us.

Through our participation in Public Law 480 shipments, our continuing involvement in commercial agricultural exports, and based upon our observations of the effects of value-added exports on the transportation sector, we believe these hearings are most timely. In each of these three areas of experience—Public Law 480, commercial agricultural exports and transportation—we have observed unique contributions and advantages resulting from the export of value-added products. In this context, our experience in the Great Lakes may be a useful guide to continued examination of the wider importance and effects of value-added exports.

I would like to begin with some general comments about an important aspect of value-added exports that is often overlooked—the field of transportation. The revenue and employment generating potential that exists from the point of acquisition of raw materials, to actual delivery overseas, is immense. In agricultural products alone, the export of these products in processed and value-added form can have a major impact on truck and rail use, as well as in storage, warehousing and freight forwarding activities. In ocean transportation, value-added products are usually shipped on general cargo vessels, which carry a wide variety of products; thus, the availability of "value-added" exports can serve as an attraction or a "draw" for those general cargo vessels able to carry additional export materials.

Our experience with the transportation aspects of Public Law 480 alone, demonstrate that exports of processed grain products are a major source of revenue and employment for mills, port authorities, warehouse operators and rail and maritime transport interests. Ports such as Duluth, Green Bay and Milwaukee, for example, devote a considerable amount of their tonnage to these programs. In 1981, Public Law 480, title II shipments represented 91 percent of the Port of Duluth's general cargo and 73 percent of all general cargo handled at Duluth Marine Terminal. The direct payroll at the Duluth Public Marine Terminal resulting from these exports totaled $1.2 million. The additional benefits to farmers, processors, inland carriers, vessel agents, longshoremen, pilots, tugmen, linehandlers, shiphandlers, inspectors, etc., is of major significance. In Milwaukee, port employment and commercial shipping activity is largely dependent on the export of Public Law 480 processed products. Last year, those exports accounted for 56 percent of the business of the port's major stevedoring firms, totaling over 100,000 man hours of employment. As a result, 74 percent of Milwaukee's commercial port activity is directly related to processed product exports under Public Law 480. In Green Bay, stevedoring interests estimate that the economic result of processed, bagged, export cargo is five times that of bulk exports.

We have also seen how the export of Public Law 480 processed grain products has had far reaching results in rail transportation, by stimulating competitive rates and helping railroads maintain cash flow under otherwise difficult economic circumstances. Rail movement of these commodities also results in some very interesting situations. For example, the major drawing point for the export of processed grain products under title II of Public Law 480 for the Port of Duluth, Minnesota, is Crete, Nebraska. While the Port of Duluth and the vessels that serve Duluth are beneficiaries in terms of employment and revenue resulting from the export of these products, there is also direct benefit to the Crete area, the railroad interests that serve Crete and Duluth, and the wide range of employment and business interests within the process. With the States of Minnesota, North Dakota, Nebraska, Iowa, Illinois, and Indiana all providing more than $50 million each in bulk and processed commodities for the Public Law 480 program, it is obvious that any increase in the transportation requirements for the processed products portion of these exports would be particularly beneficial to those and surrounding states.

The full range of advantage in the export of value-added products to the transportation industry has not been fully analyzed. However, if the export of value-added products under the Public Law 480 program is any guide, then there are some very interesting precedents to examine that may be of major significance to the transport sector.

I would now like to comment on the product and commodity composition within Public Law 480, which, despite being a relatively minor portion of our total agricultural exports, has a major impact on the export of certain processed and value-added products. In this regard, we have an opportunity under all Titles of Public Law 480 to use the export of processed products as a stimulus to the U.S. producing, processing and transport sectors, and as a market development tool for the commercial export of such products in overseas markets.

At the same time, we should not forget that emphasis on the increased export of these products is of special benefit and importance to the recipients of U.S. food aid. In titles I and III of Public Law 480, the use of flour and soybean oil provide essential inputs to many countries' milling and baking industries and their basic cooking oil requirements. In title II, the provisions of a range of processed, fortified and blended food products is an essential ingredient in the specially designed and targeted nature of these programs. Thus, the export of processed and value-added products enhances the scope and quality of a food aid program that continues to be critical to millions of people throughout the world.

However, with Public Law 480 expenditures totaling nearly $1½ billion each year within the U.S. economy, the effects and scope of those expenditures are enormous. While the various international objectives of Public Law 480, dealing with humanitarian and developmental concerns, foreign policy support, and market development for U.S. farm products are just as essential as ever, there is a growing and critical need for managers of the program to take into account the effects of international and operational decisions, particularly in the area of commodity selection, on various sectors within the U.S. economy. There is no question as to the importance of the international objectives of Public Law 480; its strong record of providing food for those in need for nearly 30 years speaks for itself. What is required, however, is a broadening of criteria in the Public Law 480 decision-making process to include some consideration of the far reaching effects of those decisions within the U.S. economy.

The wide range of domestic interests that converge in this program has always been indicative of the support it enjoys. Indeed, at a time when continuing food aid requirements throughout the world coincide with depressed commodity prices and the need to increase U.S. farm income, the merging of international and U.S. domestic interests is particularly apparent.

In this regard, with the U.S. economy in a distressed condition characterized by high unemployment, small business closings, and the need for personal income to increase, it is surprising how shipments of processed or "value-added" commodities under Public Law 480, can provide a significant degree of assistance.

For example, every time we export $1 million of wheat under Public Law 480, it generates $5.42 million in gross output, employment for 143 workers, increases personal income by $1.54 million, and generates $326,000 in additional tax revenue. However, if this same $1 million of wheat is processed into flour, the return to the economy will be even greater:

(1) There would be additional gross output of $8.84 million, for a total of $14.26 million.

(2) There would be additional employment of 192 people for a total of 335.

(3) There would be additional income of $1.91 million for a total of $3.45 million.

(4) There would be additional tax revenue of $451,000 for a total of $777,000.[1]

Thus, while the export of wheat under Public Law 480 (or commercially for that matter) generates a return to the economy, the export of flour as a "value-added" product causes a secondary demand that spreads out through the U.S. economy creating economic activity, jobs and tax revenue for the government. I have used flour as an example, but the same effect is found in other products as well.

While there is considerable potential for the expanded use of processed products in Public Law 480, we must remember that the program is governed by budget and tonnage requirements. If past experience is any guide, efforts to increase the share of processed and value-added products in Public Law 480 will be viewed by those controlling the program not as an opportunity, but as a budget problem. Indeed, increasing the share of processed and value-added products in a program carrying a mandated minimum tonnage and a fixed appropriation can be a problem.

However, there are ways to address that problem and the full and early allocation of all program resources is the best way. In both title I and title II, each year begins and progresses far too long with a sizable amount of commodity resources assigned to an unallocated reserve. While there is some rational for setting aside limited amounts of commodity and program resources for emergency or unanticipated requirements, there is no need for the large reserves that are deliberately included in both programs.

In title I, the unallocated reserve is primarily an effort to circumvent the requirement for the provision of country allocation information and can result in later commodity changes away from value-added or processed commodities, such as flour and vegetable oil.

In title II, the situation is even more serious. This program, which uses sizable amounts of processed, blended and fortified products and which is Congressionally mandated at a minimum level of 1.7 million tons annually, currently includes an unprogramed and unallocated commodity reserve of nearly one-half million tons for the upcoming fiscal year (fiscal year 1983). It is a program that is deliberately approved at lower than requested amounts—so much so, that of the 1.7 million minimum tonnage requirement, only 1.2 million is not actually approved for program usage throughout the next year. In recent years, this practice has resulted in efforts to make up the minimum tonnage with non-processed products in the hopes that the actual funding required to meet that minimum tonnage will be less than the appropriated amount, thus, allowing transfers of funds to the title I program—usually for the further purchase and shipment of non-processed commodities. In fiscal year 1982, over $80 million was transferred away from title II uses in this manner.

Obviously, a balance must be struck between the use of processed commodities and whole grains in our food aid program and there continues to be a substantial need and place for whole grains in Public Law 480. However, Congressional intent regarding the full use of program resources and blended, fortified and processed products, particularly in title II, is quite clear. A deliberate avoidance of that intent and disruption of programs for alleged budget reasons is not the answer.

Therefore, and as a means of exploring the full potential for additional uses of value-added products in Public Law 480, we believe that Congressional attention to the need for full and early commodity allocations and program approvals is essential. Such attention would assure that any budget or commodity concerns could be dealt with directly and early enough to determine if additional allocations of value-added products were possible.

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[1] The data presented are derived from Gerald Schulter and Kenneth C. Clayton, "Expanding the Processed Product Share of U.S. Agricultural Exports," National Economics Division, Economic Research Division, USDA, July 1981. Staff report No. AGESS810701.

In closing, I would like to reiterate our belief that increased exports of processed products is of significant value to our economic interests, and we welcome the increasing degree of Congressional concern on this subject.

STATEMENT OF DONALD E. NORDLUND, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, A. E. STALEY MANUFACTURING CO., ON BEHALF OF CORN REFINERS ASSOCIATION, INC.

Mr. Chairman and distinguished members of the subcommittee: I am Donald E. Nordlund, chairman and chief executive officer of the A. E. Staley Manufacturing Co. of Decatur, Ill. I appear before you today on behalf of the members of the Corn Refiners Association, Inc. A full list of members of the association is appended to my statement for inclusion in the record.

We first would like to commend the chairman for scheduling this hearing. We are all aware of the press of business facing the Senate. Taking the time to hold this meeting is ample recognition of the importance you attach to the issues concerning value-added farm product exports.

The corn refining industry is an excellent example of the value-added concept in action. Refiners take our most abundant agricultural product, corn, and convert it into such higher value products as starches for the food, paper, and textile industries; sweeteners for food and beverages; alcohol for fuel, industrial and beverage use; corn oil; and protein feeds for livestock and poultry. In the process, we buy over a billion dollars of corn from U.S. farmers annually, and employ around 15,000 people. Many other jobs in service and supply businesses are wholly or partially dependent on the refining industry.

Although the bulk of the business of the industry is domestic, refiners export substantial amounts of their value-added products. In 1981 about 25 percent of corn refinery products went into export channels, adding around $600 million to the positive side of our balance of trade ledger.

The primary export product of the corn refining industry is a 21 percent protein animal feed ingredient—corn gluten feed. While its value is not such that refiners specifically construct plants for its production, the returns from exports of corn gluten feed are an important aspect or the financial and market planning for plant construction or expansion.

The largest portion of these exports are purchased by animal feed compounders in Europe. Corn gluten feed is allowed duty-free entry into the community under trade agreements negotiated in the Kennedy round. Recently, serious efforts have been made within the community to abrogate these commitments, and impose quotas and import duties on corn gluten feed. We have been gratified by the steadfast opposition of Congress and the administration to these proposals.

Beyond the potential damage to corn refiners and the farmers who supply them, important principles of international trade are at stake in this debate. The basic principle if one of honoring trade agreements. Besides corn gluten feed, other major agricultural products enter the community under the same duty-free bindings. If this is unilaterally broken for corn gluten feed, a dangerous precedent will have been established which could threaten tariff treatment of other value-added feed ingredients, most notably soybean meal. We strongly urge that Congress continue its opposition to EC efforts to limit these important value-added exports.

Beyond defending our existing markets for processed commodities, we should take advantage of every available opportunity to expand exports of value-added food products. Much of this expansion effort is in the hands of the food processing industry itself. However, there are several areas in which Federal Government actions can assist. Where the U.S. Government has concluded bilateral agreements for trade in grains and oilseeds, we feel that they should diligently attempt to include some of the total in the form of processed feed or food products. Such action will not reduce the total amount of U.S. grain purchased from U.S farmers, but will allow our workers and processors to share in the benefits of these markets. Although negotiations for a new long-term grain agreement with the Soviet Union have been suspended for political reasons, we strongly urge that if and when they resume, that our negotiators attempt to include minimum purchase provisions for value-added products such as corn gluten feed, soybean meal and wheat flour.

These two measures protecting existing export markets and creating new opportunities—are among the goals of the export processing industry coalition, or EPIC. As sponsoring members of EPIC along with organized labor and other processing groups, we fully support the goals of this organization. Other members of our panel today will be discussing some of the other policy goals of EPIC, and we hope that you will find them worthy of support by the subcommittee. Again, we appreciate your interest in holding this hearing, and will be pleased to answer any questions the members may have. Thank You.

MEMBER COMPANIES—CORN REFINERS ASSOCIATION, INC.

ADM Foods (a division of Archer Daniels Midland Co.), P.O. Box 1445, Cedar Rapids, Iowa 52406. Plants: Cedar Rapids, Iowa; Decatur, Ill.; Clinton, Iowa; Montezuma, N.Y.

American Maize-Products Co., 41 Harbor Plaza Dr., Stamford, Conn. 06904. Plants: Hammond, Ind.; Decatur, Ala.

Amstar Corp., 50 California St., San Francisco, Calif. 94111. Plant: Dimmitt, Tex.

Cargill, Inc., P.O. Box 9300, Minneapolis, Minn. 55440. Plants: Cedar Rapids, Iowa; Dayton, Ohio; Memphis, Tenn.

CPC International Inc., International Plaza, P.O. Box 8000, Englewood Cliffs, N.J. 07632. Plants: Argo, Ill.; North Kansas City, Mo.; Stockton, Calif.; Winston-Salem, N.C.

Hubinger (a subsidiary of H. J. Heinz Co.), One Progress St., Keokuk, Iowa 52632. Plant: Keokuk, Iowa.

National Starch & Chemical Corp., P.O. Box 6500, Bridgewater, N.J. 08807. Plant: Indianapolis, Ind.

Penick & Ford, Ltd. (a subsidiary of Univar Corp.), P.O. Box 428, Cedar Rapids, Iowa 52406. Plant: Cedar Rapids, Iowa.

A. E. Staley Manufacturing Co., P.O Box 151, Decatur, Ill. 62525. Plants: Decatur, Ill.; Morrisville, Pa.; Lafayette, Ind. (2).

STATEMENT OF GLENN TUSSEY, ASSISTANT DIRECTOR, NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION

Mr. Chairman, Farm Bureau, representing 3 million member families, appreciates the opportunity to offer our views on farm export issues such as this one. Agricultural exports are, needless to say, of vital interest to American farmers and ranchers.

When international trading patterns shift to the detriment of U.S. exports, those changes are felt keenly by farmers and ranchers. Thus, Farm Bureau sees export stimulation as being absolutely essential to any improvement in the currently dismal farm income situation.

First, Mr. Chairman, no one should misinterpret our statement to mean that we will settle for a diminution of efforts to enhance exports of the basic farm commodities. Such commodities have long been the centerpiece of U.S. agricultural exports.

We want to see additional steps taken to capitalize on the realities of world markets that have seen major growth take place in high value commodities and products. We like the term "high value products" (HVP) used in a recent study by the USDA because this term connotes a broader range of products than "value added". The high value product definition not only includes products to which value has been added by processing but also includes such items as meat, fruits, and vegetables, and other consumer-ready products. In the remainder of our statement we will refer to high value products. (HVP) as just defined and to bulk commodities such as the basic grains and soybeans and raw materials such as cotton, tobacco, and logs.

Mr. Chairman, within this context we should like to draw attention to some of the major factors that have emerged from recent research studies, which indicate the absolute necessity for the U.S. to include stimulation of HVP exports in its trade policy and market development strategies.

When Willie Sutton, the infamous bank robber, was asked why he robbed banks, he responded, "that's where the money is". If we can divorce our thinking for a moment from the illegality of Mr. Sutton's reasoning, the HVP market is "where the money is". That is where the best market growth has been taking place. Also, prospects for future growth are excellent for high value products.

A recent USDA study shows that:

(1) World trade in agricultural products has undergone marked changes in composition since World War II. By 1980, trading in HVP had grown to $120 billion. During the 1970's world imports of HVP grew $7 to $10 billion annually—the equivalent of 17 percent each year.

(2) The U.S. has not shared in this growth as it should have. In 1970, when world trade in HVP was $25 billion, the U.S. share was about 10 percent. In 1980, we still had a share of only about 10 percent. The European Community has captured a disproportionate share of this trade.

(3) Growth propects remain good for HVP although the annual percentage gain during the 1980's is expected to be on the order of 10 to 14 percent, rather than the 17 percent annual growth rate of the 1970's. We are still talking of market growth of $10 to $15 billion each year during this decade.

So, Mr. Chairman, as people around the world become more affluent and upgrade their diets, the market for HVP will continue to grow. The United States needs to carve out a larger share of this growing market for numerous reasons.

Increased sales of these products in export markets will stimulate domestic economy activity in farming, in processing, in manufacturing, in transportation and other export oriented sectors of our economy.

Larger sales of HVP would certainly contribute to the achievement of the Administration's economic goals by broadening our agricultural export base. Furthermore, badly needed jobs would be created in the domestic economy.

Some of the problems that are hurting U.S. efforts to gain a larger market share of the international trade in HVP are:

(1) Use of export subsidies by competing countries such as the European Community and Brazil. For example, wheat flour and poultry markets have been captured in these instances through the use of export subsidies. Sometimes poultry markets captured by EC export subsidies have been taken by Brazil who obviously "out subsidized" the European Community. Countries that use export subsidies to capture markets are really exporting their unemployment and other problems. This has become a new form of "beggar thy neighbor" policy.

(2) Restrictions on market access by countries such as Japan. If Japan "grows it" or "processes it", they make an effort to restrict it. Japan has 27 import quotas accompanied by relatively high duty rates on products entering that country. Of these 27 quotas, 22 relate to agricultural commodities. Many of these 22 relate to products which have some form of higher value added to them by processing done in the Japanese economy.

We in the private sector of the economy continue to urge U.S. trade negotiators to eliminate trade problems such as those which exist between the United States and the European Community and Japan. No amount of promotion can overcome the effects of the EC subsidies or the Japanese trade restrictions. This year the AFBF has sent delegations, at Farm Bureau expense, to European Community countries and to Japan, in order to let these countries know that American farmers and ranchers are concerned with what is taking place in the international trade arena—things which are occurring to the detriment of U.S. farm income, even to the ability of American farmers and ranchers to remain on their land. Too often when delegations, such as the one last week from Japan, visit this country, American farmers are too polite to speak strongly against some of the unfair trade practices and trade restrictions that are damaging U.S. farm income.

Farm Bureau will no longer be quiet and permit the erosion of U.S. exports because of trade restrictions and unfair trading practices. The U.S. Government must move quickly to resolve these trade barriers and subsidies.

This is why Robert B. Delano, president of the American Farm Bureau Federation, recently called for greater effort by the Administration to use all tools and authorities available to overcome trading practices—even to the extent that we are willing to see that use of export subsidies by the United States regain markets that have been unfairly taken from us by the European Community and others who subsidize their exports in competition with the American farmers. American farmers and ranchers are efficient and are willing to compete with other farmers of the world in open and free markets. They cannot, however, compete with the treasuries of other nations. Therefore, they feel that it may be necessary for our government to combat these unfair trading practices with interest "buy downs" or other subsidies in order to compete with products being offered in world markets such as the European Community, Brazil, and other countries.

In this regard, Farm Bureau appreciates the efforts of the Agriculture Committee to make available $175 to $190 million for such purposes. We believe that the only way the administration will get the attention of the European Community is to challenge them seriously in world markets in the same manner that they have taken those markets from us. Perhaps if such a serious challenge were mounted, the EC would be willing to negotiate some sanity into international trading of agricultural products.

We also have asked the administration to use all tools available for stimulation of exports such as funding of the CCC revolving fund; the use of Export-Import Bank credits for agricultural exports which could be done administratively; the use of barter transactions where appropriate; and the use of the subsidy standby provision of last year's farm bill. The CCC Charter Act gives the administration authorities in addition to these.

Also, Farm Bureau supports sanctity-of-contract legislation sponsored by Senator Lugar of this committee. We believe that such legislation would improve the image of the United States as a reliable supplier. This is one of the few things that which could be done without the expenditure of funds.

Mr. Chairman, again Farm Bureau appreciates the opportunity to discuss export issues. We urge that the committee continue its efforts to provide the administration with export stimulation tools and, further, to give them a nudge to make use of the authorities already provided by Congress to expand exports, including exports of high value products.

These efforts are essential to recovery, not only in the farm sector of our economy, but they also are vital to the total U.S. economy.

STATEMENT OF ALAN R. MIDDAUGH, U.S. MEAT EXPORT FEDERATION

My name is Alan R. Middaugh, I am testifying on behalf of the U.S. Meat Export Federation. The federation is a cooperator with the foreign agricultural service of the USDA in foreign market development of meat and meat products derived from beef, pork, and lamb.

This opportunity to express the views of our organization on the very important subject of meat exports is welcome and appreciated. Four key factors compose the criteria for the successful foreign marketing of meat and meat products during the 1980's: Overseas marketing opportunities. Problems associated with this export potential. The need for dependable, guaranteed access. Recognition of the value added concept.

Geographical areas of opportunity have been indentified over the past several years in both Japan and the European Community (EC). The dollar value of U.S. beef exports rose from $194 million in 1978, to $242 million in 1979, to $249 million in 1980. When all totals are in, it can be expected that beef exports will reach at least $275 million in 1981. Export growth of total red meat has more than quadrupled over the past 10 years with the value of U.S. beef, pork, lamb, and variety meats rising from $192 million in 1971, to $886 million in 1981. This growth during periods of overseas inflation and a relatively strong dollar.

Your livestock and meat industry has made a full 360° circle in its foreign market development work over the past 5 years. We have identified and circumvented initial trade barriers. We have demonstrated demand, implemented product promotions, and now are back to struggling with intensified protectionistic barriers erected by foreign governments.

American livestock producers and packers are not apologetic for this progress over the past 5 years. Traditional markets have been enlarged and a platform now exists from which we move on to other "expandable" opportunities.

Since dollar values are not matched by tonnages, some degree of redirection is in order:

Maintain presence/promotional activities in traditional markets—Japan and the EC (no evidence of relaxation or retreat).

Greater penetration in expandable markets such as the Middle East, Caribbean, Mexico, Southeast Asia, Eastern bloc.

Intensify the industry's influence regarding trade posture at the government level, both at home and abroad (we are often told that foreign market development is 10 percent promotion and 90 percent access).

Significant effort and funding by producers and packers have been devoted to the recognition of product demand overseas and to the adoption of foreign consumer needs by exporting interests in the United States. However, as foreign governments have become cognizant of America's thrust toward an export identity, the erection of trade barriers has become commonplace.

The demand for high quality meat products continues to grow as the United States has just begun to tap the vast potential awaiting us in markets around the world.

For example, if the United States was able to export 1 pound of high quality beef to every consumer in the beef producing/consuming signatory nations of the GATT at a price of $4/lb., implemented over a 5-year period, U.S. producers would realize earnings exceeding $3 billion annually—a legitimate goal for the U.S. meat industry and one which respects a foreign country's self-sufficiency standard of 95 percent.

Although the door was opened to beef markets in Japan, and the EC, as a result of multilateral trade negotiations, each particular geographical sector continues to effectively limit U.S. export opportunities.

Japan has basically lived up to its obligation to buy beef in accordance with earlier trade agreements, however, the Japanese Government tightly regulates the importation of beef through its Livestock Industry Promotion Corp., (LIPC). The Japanese price stabilization policy—which translates into artificially high prices to consumers for imported as well as domestic meat—uses imported meat strictly to regulate domestic supply and demand and to subsidize relatively inefficient Japanese livestock producers. Recent studies show that a $3.75/lb c.i.f. beef price become $13.07 with the application of duties, import expenses, surcharges and LIPC costs. The GOJ then complains that U.S. beef is too high priced while at the same time Japanese consumers wait in line for limited supplies of American high quality beef made available through trade shows and product demonstrations.

Is it not fair to assume that with Japanese finished products entering the United States on a virtually free market basis, American agriculture should enjoy this same degree of market access for meat products, particularly when the benefit comes to Japanese consumers as well as U.S. producers.

Trade negotiations completed in 1979 paved the way for the U.S. to export up to 10,000 metric tons of high quality beef (valued at $100 million) to the EC on an annual basis. With this bilateral agreement came the immediate barrage of nontariff barriers set in place by the Agricultural Commission in Brussels.

Differences between EC meat inspection requirements and U.S. Government plant regulations continue to provide a very effective technical shelter for the community. The USDA packing plant inspection system is at least as good, if not superior to, the EC system for producing sanitary and wholesome meat for human consumption. The U.S. meat industry believes that many of these variances are unreasonable and represent arbitrary and unnecessary nontariff trade barriers.

The trend toward increasing Government intervention in international meat trade is continuing. As such intervention proceeds, market forces are becoming progressively more constrained. Severely restricting world meat trade is the practice of governments encouraging domestic production with price support schemes thus causing a tremendous tonnage buildup of reserve stocks which are being placed on the international market at highly subsidized prices ($1,500 per ton or 58 cents per pound). As recently as 1978, the EC was a net importer of beef. In 1980, the EC exported over 500,000 tons (carcass weight) of beef making it the second largest beef exporter in the world behind Australia.

Is it not right to call "foul" against the EC's common agricultural policy when it "taxes" imported American meat at the rate of $1 per pound. While EC beef entering the U.S. is subject to a duty of 2 cents per pound.

Given the opportunities and obstacles associated with world meat trade, it appears in the best interest of all concerned to look at some form of guaranteed market access as a well defined principle of international trade in meat.

Responsible world leadership on the part of major countries and blocs of countries requires that they relax these trade restrictions. Competing with foreign treasuries for available overseas markets is totally unpalatable, particularly when the U.S. shares it market with other beef-producing countries.

Major exporting nations must be prepared to extend the same access opportunities to their own domestic markets as requested elsewhere. Fair and reasonable reciprocity is the key to effective international trade—good fences do not make good neighbors.

We must recognize that the world is now nearer sliding back into the protectionism of the 1930's than at any time for the last 50 years. Unemployment is high and likely to continue high well into the 1980's.

Industries in crises—the world over—are pressing governments to restrain imports.

And the protectionism that stifled trade and kept millions on the dole 50 years ago is now being presented in a new guise, with sedutive modern rationale-sounding slogans.

We must not be party to this attitude for it spells certain disaster to our Nation as well as to our industry.

There appears to be an increase in awareness as to the necessity of exporting value added products in addition to traditional bulk commodities. There is no doubt in my mind that the foreign market place can afford both feedgrains, wheat, soybeans, and finished meat products—in concert rather than in conflict.

Japan is a prime example of the usage of American feedgrains to fatten native Wagyu steers which comprise 29 percent of the beef consumed in Japan. Domestic pork production is highly dependent upon imported feedgrains.

What is happening here is the whetting of Japanese appetities for grain-fed meats—a demand far in excess of Japan's ability to meet this demand—thus the need for beef and pork imports.

Two assumptions might be in order here: it makes little difference to corn producers whether they market grain through export channels or here at home through livestock, the meat from which could enter the export trade. A ton of grain fed to a yearling steer results in a 725-pound carcass yielding 525 pounds of exportable red meat. Major export efforts over the years by both the Government and private trade have been dedicated to bulk commodities. This is where the tonnage is, so this is where the emphasis should be placed.

To insure that the United States fully realizes the potential economic benefits of expanded agricutural exports, it would seem appropriate to step up the visability of value added products in the export scheme—stimulating job opportunities and business investments, and broadening the U.S. tax base.

It would be catastrophic for America to continue to allow the Japanese the enviable reputation of "master practitioners of the value added concept."

In conclusion, American livestock producers and packers must recognize the tremendous purchasing power of overseas consumers for meat products unique in world agriculture. The private trade, in concert with Government negotiators, must continue to apply political pressure at home and abroad, maintain persistence in the foreign market place, and have the patience so necessary to effectively penetrate overseas markets.

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C., September 28, 1982.

Hon. WILLIAM LESHER,
Assistant Secretary of Economics
U.S. Department of Agriculture
Washington, D.C. 20250

DEAR BILL: Enclosed are additional questions which Senator Huddleston submitted following the hearing on value-added exports. I would appreciate your responses which will be made part of the printed hearing record.

Thank you for your cooperation in this request.

Sincerely,

JESSE HELMS,
Chairman.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition and Forestry,
U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: Responses to the questions submitted by Senator Huddleston to the Department following the recent hearings before the Subcommittee on Foreign Agricultural Policy concerning high value products are enclosed.

We are pleased to provide the additional information for the record and appreciated the opportunity to meet with the Subcommittee members on this subjects. The complex USDA study on high value products will be published soon. At that time we will be sure members of the Agriculture Committee are provided copies.

Sincerely,

WILLIAM G. LESHER,
Assistant Secretary for Economics.

Enclosures.

Question. Dr. Lesher, many people within this Administration and experts in the field of foreign trade maintain that financing is a critical element in maintaining our export competitiveness. The 1981 Farm Bill provided a revolving credit fund for helping with the financing of agricultural exports. So far, this Administration has not sought funding for the revolving fund. Do you intend to ask for funding in next year's budget request?

Answer. The Department recognizes that a revolving fund could possibly help expand agricultural exports. However, given the Administration's firm commitment to reducing Federal spending, the Department has thus far been precluded from proposing that the Export Credit Revolving Fund be capitalized. Final decisions on the fiscal year 1984 budget have not yet been made; however, it is doubtful that the budgetary situation will have changed sufficiently by next year to permit the Department to seek funding for this new authority.

Question. Dr. Lesher, can you tell us how the Secretary intends to use the export development funds provided in the Omnibus Reconciliation Act of 1982? When will the details be available? Can you tell us if the Secretary intends to use any of these funds for "interest buy-downs?"

Answer. The Department will be making a decision on the use of these funds in the near future, and a public announcement will be made at that time. As you know, the language contained in the Omnibus Reconciliation Act is very broad authorizing the use of these funds for any export activities currently authorized by law. Given the broad nature of this authority, the Department is reviewing a wide range of options, of which an interest buy-down program is only one. Because a decision has not yet been made, I cannot say at this time whether such a program will or will not be implemented.

Question. Dr. Lesher, what role will the Department of Agriculture play in establishing policy regarding the use of export development funds provided in the Omnibus Reconciliation Act of 1982?

Answer. I expect the Department will review all options for use of these funds and will develop a recommendation based on that review. Once this recommendation is prepared, the Department will be responsible for presenting it to other appropriate Departments of the executive branch to seek their approval. The procedures to be followed in this case would not, I believe, differ greatly from those followed for other policy matters relating to agricultural issues.

Question. We hear continuously about the unfair trade practices of other nations. Faced with these practices, is our market-oriented system likely to increase U.S. export sales of agricultural high-value products? Is our free-market orientation likely to increase export sales of any agricultural products while these trade practices continue?

Answer. By definition, unfair trade practices distort the free-market system and result in an unfair advantage for one supplier at the expense of others. The extent to which unfair trade practices offset comparative advantages resulting from our level of agricultural productivity dictates to a large degree our competitive position vis-a-vis any given product.

Thus, we expect unfair trade practices to continue to have a negative impact on our high-value agricultural products. Although we do expect to see increases in sales of most of our agricultural products during the next year, our market share cannot help but be hampered by such unfair trade practices.

Question. What funding changes have occurred in export market development programs administered by the Department of Agriculture during the past few years? What results have we seen from the expenditure of export market development funds? What are the expected results of your current program funding for these activities, both in terms of agricultural exports and in terms of financial well-being of farmers?

Answer. During the past three years, funding for the export market development programs has grown through congressional foresight to offset the impact of inflation. The budget for foreign market development increased from $28.1 million in fiscal year 1980, to $31.7 million in fiscal year 1981, to $35.8 million in the year just completed. This will permit the U.S. agricultural industry to continue to build strong long-term markets for U.S. agricultural commodities.

Over the years since the inception of the market development program, agricultural exports have grown from about $3 billion to just over $43 billion last year. There have been some dramatic examples of the effect of the market development program on U.S. exports. For example, in Japan it has taken many years to convert a rice-eating nation into one of our largest wheat markets. Other Asian nations—Korea, Taiwan, Indonesia, and even China—are moving in the same direction largely as a result of long-term market development efforts by the U.S. wheat industry. Another example is the substantial growth in the utilization of soy products in Korea, which had for centuries been self-sufficient in soybean production. In the late 60's, with the beginning of economic growth, the Korean Government began to permit limited imports of soybeans. Concurrently, the American Soybean Association began to work with Korean crushers, the local livestock industry, and the Korean Government, demonstrating the advantages of using higher levels of soy protein. The industry adopted the technology, the Government began to approve larger imports, and our market has grown from 30,000 to 460,000 metric tons.

There have been a few studies on the effect of the market development program on U.S. agricultural exports. A recent study by Chase Econometrics shows that export promotion has resulted, on a worldwide basis, in an annual average increase in exports since 1969 of: 4.1 percent for soybeans, 11.6 percent for soy oil, and 11.7 percent for soy meal. The resultant combined increase in export revenue from these products amounted to $341.6 million each year since 1969,

The sustained strength of the dollar, combined with high interest rates and depressed economic conditions, has forced many of our trading partners to reduce imports and minimize stocks. As a result of these conditions and very depressed prices, we do not expect fiscal year 1982 to be a record year in terms of export earnings. But, we do expect statistics will show that overseas markets have taken approximately the same tonnage as last year. Given recent domestic utilization trends, export markets, despite their bearishness, have been more important than ever to the well-being of our farmers by providing a larger than ever segment of the market for U.S. farm products. Now our, farmers, depend on export markets to absorb the production from two out of every five acres harvested.

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